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Small Business Entrepreneurs in
Vertical Marketing Systems

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SUMMARY

The objective of this study is to investigate the potential contribution of vertical marketing systems to the development of small business entrepreneurs and in particular to entrepreneurially disadvantaged groups. The following are the two major questions for this study:

1. Do vertical linkage systems serve as a pathway for the entrepreneurially disadvantaged groups, namely those with no entrepreneurial experience, from families without business background, and from indigenous ethnic groups?

The modernization process in Third World countries, and in particular Indonesia, may create a widening gap between the modern and the traditional sectors. Vertical relationship systems with their unique characteristics (e.g. a symbiotic relationship between large and small business operation) may contribute towards reducing this gap through developing the entrepreneurially disadvantaged groups into business careers.

2. Do vertical relationships accommodate independent entrepreneurs?

It is assumed that independent entrepreneurs can perform better entrepreneurial functions than those "entrepreneurs" who are constrained by external power. There are doubts whether the vertical relationship, characterized by a large firm's dominant role, can accommodate independent entrepreneurs.

This study reveals that despite many problems and limitations a tight-control type of vertical marketing system can serve as a pathway for individuals from entrepreneurially disadvantaged groups to become successful modern-type entrepreneurs. The performance of these disadvantaged groups is equal to that of other different groups. Also, independent entrepreneurs exist in all the vertical marketing systems studied.

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NOTATION

E.F.	=	Expected Frequency
SBE	=	Small-business Entrepreneur
Q.A.	=	Questionnaire A
Q.B.	=	Questionnaire B
Q.C.	=	Questionnaire C
VMS	=	Vertical Marketing System
x	=	Observed Frequency

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CHAPTER I STATEMENT OF THE PROBLEM AND RESEARCH STRATEGY

A. INTRODUCTION

This study explores the experience of small business entrepreneurs within vertical marketing systems (VMSs for short). In a vertical-linkage system, members may develop attitudes or a condition of dependence or independence. There are doubts whether such systems can accommodate independent small business entrepreneurs. This study investigates the dependent and independent characteristics of seventy-seven small business entrepreneurs in five vertical marketing systems. It also investigates whether these systems are routes to business careers for some people who are possibly at a disadvantage in terms of entrepreneurship; such as those who have no business experience, those who are from the under represented indigenous group, and whose family backgrounds have no business connection.

In this chapter the rationale for this study is presented, and the research questions which form the basis for the data-search are described. In the last part of this chapter the way the study was directed in order to tackle the research questions is explained.

This research has been conducted in Indonesia, a Third World country. At this period Indonesia is in the fourth of its series of five-year plans for development which was started in 1969. This series of plans is part of Indonesia's blue print for achieving its long-term objective: a just and prosperous society. In the next section the key aspects of Indonesia's economic development will be briefly explained. A description of Indonesia, its resources, economic aspects, and problems, will serve as the background of this study. The focus of the study, however, is on the microeconomic aspect, and in particular the development of Indonesian entrepreneurs in the trading sector. As the title of this study suggest, the small-business entrepreneur sector is one of the units of analysis and the vertical marketing systems in which these entrepreneurs operate are the "constraint" factor. In brief, a vertical marketing system is a form of interorganization integration system in the marketing distribution network in which a unit (usually a large company) through the power it possesses assumes channel leadership. A more detailed explanation of the terms used is presented elsewhere.

B. INDONESIA: A DEVELOPING NATION

Indonesia can be described in many ways, and it is probably best to describe its geography first. The following is Palmier's description, and his map of Indonesia is presented in Figure 1.1, Republic of Indonesia (1).

"Indonesia forms part of the world's largest archipelago which lies between Malaysia and the Philippines to the north and Australia to the south. From northern Sumatra in the west to Irian Jaya in the east runs a distance of nearly 3,200 miles. This is further than from the west of Ireland to the Caspian Sea, and as far as from the west coast of the United States to Bermuda in the Atlantic. Its land area totals some 735,000 square miles, or about a quarter that of the United States. The five largest islands in the archipelago are (in decreasing order of size): Kalimantan (where Serawak and Sabah form part of Malaysia, and Brunei is newly independent), Sumatra, Irian Jaya (the eastern half of the island is Papua New Guinea), Sulawesi, and Java. There are in addition some 13,700 islands, of which it is thought that 6,000 are inhabited. Lying across the equator, Indonesia enjoys a tropical climate with only slight seasonal changes."

Over this large area there is a great diversity of surface and a wide range of climate, and thus the physical conditions allow a wide variety of crops and dense jungle (2). Indonesia was a source of agricultural products during more than three centuries of the colonial period (3). Today, however, its main export is oil. The agricultural sector still contributes 26 per cent of the GDP and employs 58 per cent of the labour force. Details of Indonesia's structure as regards output, labour force, and growth of production is presented in Table I.1, I.2, and I.3.

TABLE I.1
STRUCTURE OF PRODUCTION 1960-80
(as percentage of GDP)

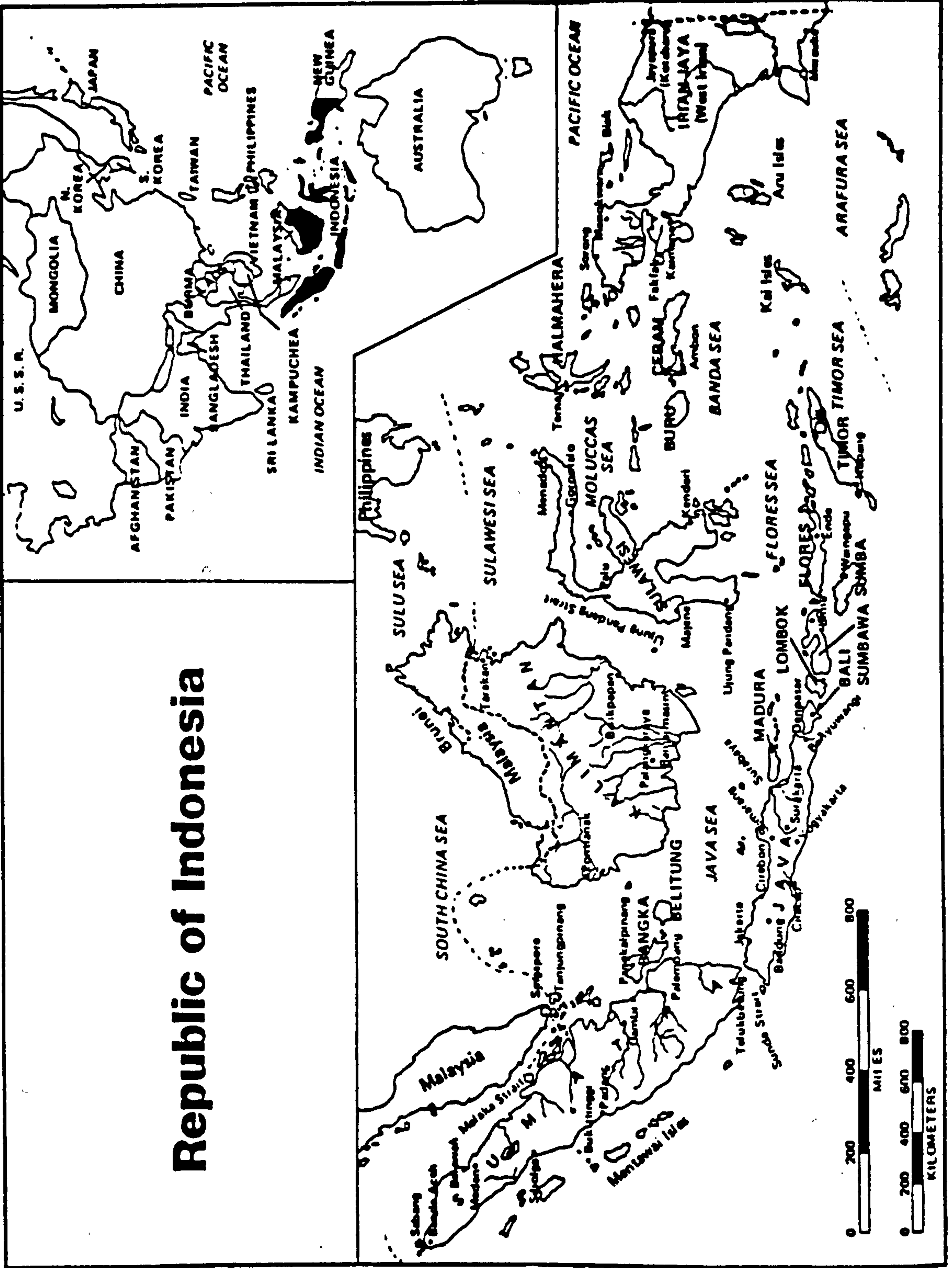
	<u>1960</u>	<u>1982</u>
Agriculture	54	26
Industry	14	39*
(manufacturing)	8	13
Services	32	35

Source: World Bank, World Development Report 1984, Oxford University Press, 1984.

* Notes: In 1982 petroleum export value was US \$14,001.82 million, while GDP was US \$90,160 million.

FIGURE I. 1

Republic of Indonesia



Source: L. Palmier, Understanding Indonesia, Gower Publishing Company, Ltd., 1985.

TABLE I.2STRUCTURE OF LABOUR-FORCE 1960-80
(percentages)

	<u>1960</u>	<u>1980</u>
Agriculture	75	58
Industry	8	12
Service	17	30

Source: World Development Report 1984.

TABLE I.3GROWTH OF PRODUCTION :
AVERAGE ANNUAL GROWTH RATES 1960-70 & 1970-82
(percentages)

	<u>1960-70</u>	<u>1970-82</u>
GDP	3.9	7.7
Agriculture	2.7	3.8
Industry	5.2	10.7
Manufacturing	3.3	13.4
Services	4.8	9.3

Source: World Development Report 1984.

From the above facts and figures we can draw a rough picture of the marketing environment. The following conclusions may help us to understand Indonesia's market and economy better:

1. If one wants to cover as many Indonesian consumers as possible in such a large area as is described earlier, the marketing task depends to a large extent on the manner of distribution, and in particular physical distribution. The absence of efficient transportation among many of the islands aggravates this problem. Therefore Java, which had a population of about 100 million in 1985 and which has relatively better transportation and communication facilities, is the main consumer market in Indonesia.

2. The majority of Indonesians, about 58 per cent in 1980, are still engaged in agriculture. Adelman and Morris write that it is typical of low-income countries that a large proportions of their populations live in relatively self-contained low income agricultural communities in which production is primarily for local consumption(4). This sector, however, is declining in terms of its percentage contribution to the GDP, the labour-force, and growth, as shown in Table I.1, I.2, and I.3.

Dewey describes Java's peasant and internal market in mid 1950s as follows:

"Java's rich soil and favourable climate have allowed the peasants to provide most of their own food and to produce crops for export as well. The average farmer depends heavily on cash cropping, some produce being sold to the western market, some to the other Indonesian islands, and some on the internal market. This internal market, covers the whole of the island of Java...[and] trade flows freely. Most of the internal trade is carried on through the native markets, or pasars, which form a network linking rural villages to their local town markets and the town markets to each other and the city markets. Imported and factory-made goods consumed by the peasant population are also handled by these markets. While certain aspects of wholesaling and certain products are handled by Chinese (and to a lesser extent Arabs and Indians), the markets are dominated by Javanese (5)."

According to Chandrady, the classification of Indonesian consumers into rural and urban groups can be justified on the grounds of differences in income, levels of literacy, and frequency of contacts with the outside world (6). A further analysis reveals that Indonesian market consists of diverse segments and the modern sector is growing fast (7). There are various types of distribution channels serving these various segments. From the literature we can conclude that the four types of Bucklin's retail market systems (8), namely periodic, permanent, fragmented, and vertically integrated, exist in their respected socio-economic environments. For instance, Geertz describes the periodic market phenomenon, which he calls "The Traditional Pasar" in the small town of Modjokuto (9), and Chandrady mentions the presence of many forms of modern retail methods (10).

3. There is a structural economic change from an agriculture economy to an industrial economy, as shown in Table I.1. This shift seems in line with the "Clark-Fisher" thesis, namely the process of development is marked by an increase in the relative importance of secondary activities (i.e. manufacturing and other activities which change the form of materials) and then tertiary activities (i.e. all other activities apart from agricultural, extractive, and secondary activities) as a source of income and employment (11). This trend means that commerce and services become increasingly important economic activities as a source of employment and income for Indonesians.

4. Indonesia's exports (i.e. 91.5 per cent in 1982) depend mainly on its mineral products, and in particular oil (i.e. 73.3 per cent in 1982), which in recent trends has sold in a depressed market. A further analysis reveals that a high percentage of Indonesia's trade depends on one country, i.e. Japan. The 1981 trade figures show that exports to Japan were 47.3 per cent of the total export value, while imports were 30.1 per cent. This suggests that a diversification of export markets and commodities, and in particular manufactured

and finished products, is essential in order to achieve economic resilience when facing changing conditions and fluctuations in the international economy.

For a Third World country, where the government influence in the economy is high, the next question is: who will undertake the task of creating new export markets? Shall it be the Government through its state enterprises, or the private sectors? At present Indonesia's export products are produced and exported by both state and private enterprises. State enterprises are mostly large and are in various activities. Besides oil and other minerals, these enterprises primarily export the traditional commodities which previously were exported by Dutch companies before they were nationalized.

There have been two strategies mentioned on how to tackle the future gap in the balance of payments owing to the decline of oil revenue, in order to sustain economic growth and at the same time to solve the wider social economic problems such as unemployment and inequality. The first option is the expansion of Indonesia's capacity to export products other than oil and natural gas (an outward looking strategy). The second option is the import substitution strategy, which means developing domestic market (an inward looking strategy)(12). Whatever the decision on the foregoing alternatives is the development of domestic markets is certain to benefit Indonesian consumers and small scale businessmen (13). For the consumers at least more products are available, and since the distribution of consumer products are mostly through small businesses, they are too will benefit.

There are criticisms as to the neglect of development in the commercial sector in LDCs, and Izraeli et.al write that many public servants and economists are strongly biased against middlemen (14). The following is Slater and other's critics in this aspect:

"Economists oriented to the workings of the perfectly competitive market model tended to attribute a passive role to 'marketing' as part of the economic development process. In part, this neglect may reflect a traditional reluctance to enter into details of marketing on the part of general economists who still carry over the classical view that production is what matters-consumption is mainly a question of income distribution. Collins and Holton have questioned the validity of assuming that marketing firms will automatically spring up in response to price incentives and provide effective linkages between producers and the ultimate consumer (15)."

This study will not analyse the rightness of those criticisms of Indonesia's current economic policy. Those criticisms can, however, serve as an important reminder as to the need for government's active response to the attempts on the part of

companies operating in Indonesia to modernize their distribution systems. The government can also, through various policies and regulations, encourage companies to adopt systems which have a great positive impact to the society.

This study will focus on analysing the operation of some modern marketing and distribution systems currently operating in Indonesia. The theoretical advantages of these systems will be described in Chapter II, and the evaluation made by the participants (i.e. manufacturers and distributors) concerning their vertical relationships will be analysed. Among various types of distribution system, vertical marketing systems offer great efficiency (16). There are, however, other advantages and disadvantages which need to be clarified in order to have a balanced view of these systems which are relatively new in Indonesia. The analysis will help to clarify an alternative in modernizing enterprises' distribution systems within Indonesia's environment.

Another angle to describe Indonesia is through analysing its position in the process of modernization. The terms industrialization, development, and modernization, according to Goldthorpe, are much confused, and their meanings overlap (17). The following is his clarification of these terms, which will help to explain the scope, and the relation of the findings and of the data presented.

- Industrialization refers to real changes, objectively observable and statistically measurable, particularly the shifts from agriculture to industry.
- Development is a somewhat more problematic concept. Growth in GNP per capita is generally taken as the criterion measures, but many economists look deeper in search of underlying preconditions, institutional or psychological. If in industrialization the focus is technological, in development it is economic.
- Modernization is one way of looking at both. Modernization is seen as the change from a "traditional", pre-industrial state or condition, the starting-point for development, to "modernity", through an intermediate "transitional" condition. The process affects both societies and individuals in mutually reinforcing ways.

According to Palmier, the development of the new Indonesia is to a very great degree synonymous with the modernization of the society (18). As Indonesians see it, this involves acquiring and applying Western knowledge in such a way as not only to maintain but also to encourage and strengthen their own cultures (19). Vertical marketing systems, whose contribution to the development of entrepreneurs will be analysed in this study, were developed in the West, and they are relatively new for many companies in Indonesia. One

crucial question is whether these systems fit into the new Indonesia? This study will offer some analyses as to the suitability of these systems. According to Emlen, however, there is a demand for modernization in marketing in Southeast Asia and it will contribute to the countries' economic progress. The following is his detailed view on this issue (20):

"I saw clear indications among the young businessmen in Southeast Asia of a budding demand for modern principles and techniques of marketing...The awakening in these countries is in most instances groping, but a healthy one; and it is only beginning. The demand is clearly for 'modernization' in marketing, not 'westernization'; and new systems are generally looked to inquiringly and objectively not as a panacea...The economic progress which could result from adding modern marketing concepts would carry with it far-reaching, positive political and social ramifications for these countries. And in this sphere may rest marketing's unique contribution. The economic evolution of some of these Oriental countries is at a stage where many marketing techniques, some of them completely new, could be applied without gravely disturbing the flow of the economy."

Emlen's observation on the need for Southeast Asian countries to modernize their marketing may be interpreted as meaning that this need comes in particular from the local businessmen operating in the modern sector. This modern sector has to interact either as a partner or as a competitor with foreign companies such as the subsidiaries of transnational corporations.

The introduction of modern marketing techniques, however, does not always produce positive results for the host countries. Harper compares the impact of advertising in Kenya, a developing country, and the United Kingdom, a developed country. He finds that the Kenyan consumer can apparently be more easily affected by promotion than his British counterpart, and his brand preferences or total spending pattern may be permanently affected by promotion of this sort (21). The marketer in a developing country is thus presented with both an opportunity and a responsibility (22). It seems that a positive and active attitude on the part of the host countries towards the adoption (and sometimes also the requisite adaptation) of these foreign concepts and techniques is vital. Dholakia, for instance, foresees a detrimental effect for Third-World countries from this influx of new modern marketing practices if the countries concerned "do nothing" to direct their own economies. The following is how he outlines one of his gloomy scenarios of the new marketing and economic condition of the Third World countries (23).

"Subsidiaries of transnational corporations, affiliates of transnational corporations, advertising agencies, consulting firms,

business schools, etc. engage in heavy borrowing of marketing tools and concepts. The traditional institutions (such as indigenous wholesalers or media), which have outdated but 'appropriate' marketing technologies, are heavily dependent on foreign-controlled or assisted markets for goods and marketing services. In agricultural trade, international aid agencies such as the World Bank often exercise decisive influence because they assist in agricultural development projects... In the manufacturing sectors of Third World countries, foreign influence is already high and can be expected to increase further. The twin tendencies of: (a) choice of Western technologies, and (b) emulation of Western consumption patterns, ensure that marketing systems for manufactured goods are modelled after, and dependent on, the Western marketing systems."

On the basis of the foregoing views, Third World countries will eventually dependent upon advanced, or "capitalist" in Marxian term, countries (24). In a strong term it is a new colonialism. However, Dholakia's assumption for this particular scenario is not wholly valid in Indonesia's case. For example; the Indonesia government has an active role in directing the economy through various measures, e.g. monetary policies, investment laws, and economic plans. But this pessimistic scenario can be used as a warning against the introduction of new methods without careful monitoring. A new advanced marketing technique may have detrimental effects, as can be seen from the many regulations on this aspect introduced in the advanced countries, such as various laws on franchising, e.g. full-disclosure laws and fair-practice laws (25).

Vertical marketing systems, and in particular franchising promise many advantages to both large and small enterprises and to societies as well (26), but they need certain preconditions in order to produce the best results, and they also require a degree of "maturity" in both the participants and in other third parties (e.g. various government agencies) in order to obviate malpractices. A further discussion about this aspect is presented elsewhere. In order to be able to evaluate a transfer of marketing techniques to Indonesia, a general understanding on Indonesia's position in its modernizing process is needed. In the next section Indonesia's economic progress, as one of the Third World countries, will be briefly explained.

To describe Indonesia as a Third World country, or developing country, or less-developed country (LDC) is correct but insufficient. There are some similarities among Third World countries, which are in contrast with developed or industrialized countries in many aspects, but not in all.

According to Todaro, there are seven major components in the structural diversity of developing nations. These include as follows (27):

1. The size of the country (geographic, population and income).
2. Historical evolution.
3. Physical and human resource endowments.
4. The relative importance of public and private sectors.
5. The nature of the industrial structure.
6. The degree of dependence on external economic and political forces.
7. The distribution of power and the institutional and political structure within the nation.

With regard to Indonesia, many of the components mentioned above are discussed in this chapter.

Theories of development which emerged in the 1950s and 1960s tended to generalize the plight of the so-called "developing" countries in Asia, Latin America, and Africa (28). It was thought that whatever economic, social, or political forces impinged on the countries in these three backward regions affected all of them more or less equally (29).

Paul Streeten produces a comprehensive list of the characteristics of the backward indigenous sector of a poor country. It is very likely that this list is also correct for countries whose modern sectors and sectors in transition are relatively small as compared with the traditional ones. Streeten's list is presented in Appendix A.

In the 1970-80 decade there has been a differentiation of the Third World, and substantial variations were recorded in the development experience of different developing countries, regions, and continents. Some countries showed impressive rates of economic growth, others stagnated or declined. Now the world has a rather more finely graded hierarchy of nations than was at first portrayed, namely developed market, developing market, and centrally planned economies. Finer classifications are: industrialized, middle income, low income, centrally planned, and capital-surplus oil economies; or developed market, developing market, least developed, centrally planned and OPEC countries (30). Indonesia is a member of OPEC and on the basis of the World Development Report 1984, it is in the lower-middle-income category with GNP per capita in 1982 US \$580 (31).

The most commonly used criterion for classifying countries as developed or developing is per capita real income. Those with "low" per capita real income are considered to be developing, those with "high" per capita real income are developed (32). Despite its many weaknesses, GNP per capita remains the most important single measure of a country's ranking in the hierarchy of economies, just as the equally dubious 'average annual growth rate' remains the most important single indicator of a country's economic performance over a given time (33). A comparison between Indonesia 'economic performance' and that of some other countries in the neighbouring regions, as well as of some industrialized

TABLE I.4
BASIC INDICATORS

Some Selected Countries	Populations (millions) mid-1982	Area (thousands of square kilometers)	GNP per capita		GDP
			Dollars 1982	Average annual Growth Rate (%) 1960-82	Average annual Growth Rate (%) 1970-82
INDONESIA	152.6	1,919	580	4.2	7.7
Southeast Asia:					
Malaysia	14.5	330	1,860	4.3	7.7
Singapore	2.5	1	5,190	7.4	8.5
Thailand	48.5	514	790	4.5	7.1
Philippines	50.7	300	820	2.8	6.0
South Asia:					
India	717.7	3,288	260	1.3	3.6
Pakistan	87.1	804	380	2.8	5.0
Bangladesh	92.9	144	140	0.3	4.1
Sri Lanka	15.2	66	320	2.6	4.5
Industrialized countries:					
Japan	118.4	372	10,080	3.6	4.6
United Kingdom	55.8	245	9,660	2.0	1.5
United States	231.5	9,363	13,160	2.2	2.7

Source: World Development Report 1984.

countries, is presented in Table 1.4, Basic Indicators. From Table I.4 we can draw the following conclusion: Indonesia is a populous country with a population of 152.6 million in mid-1982. Its GNP per capita is higher than that of some selected South Asia countries e.g. India, Pakistan, Srilanka, yet it is still relatively poor as compared with the neighbouring Southeast Asian countries e.g. Malaysia, Singapore, Thailand, and the Philippines and more strikingly with developed countries. In terms of economic growth rates, Indonesia is comparatively well-off internationally, and was particularly so during the 1970-82 period.

It was suspected that the high Indonesian GDP growth rates during 1970-82 were caused primarily by the oil sector. Studying the contributions of all sectors to the overall

GDP growth reveals that growth has occurred in all sectors in the economy. It is, however, not clear whether the origin of other sectors' growth is oil. The figures in Table I.5 clarify the contribution of each sector to GDP growth.

TABLE I.5

CONTRIBUTION OF EACH SECTOR TO GDP OVERALL GROWTH
(1970-83 average)

Agriculture		1.43
Mines		0.63
Industry		1.42
(manufacturing)	1.34	
(electricity)	0.07	
Other (construction, trade, etc.)		3.81
		<hr/>
TOTAL		7.27

Source: P. McCawley. Survey of Recent Developments. Bulletin of Indonesian Economic Studies Vol. XXI, No.1, April, 1985, p.29.

Many economists write that the Indonesian economy has developed rapidly under the rational economic development strategies of the New Order Government (34). Since gaining independence in 1945, Indonesia has experienced two contrasting periods, namely the Old Order Government 1945-66, and the New Order Government from 1966-onwards.

The New Order Government is more active in encouraging private investors to participate in the country's economic development. The Foreign Investment Law of January 1967 and the Domestic Investment Law of November 1968 provide a remarkable package of fiscal and tariff incentives aimed at improving the profitability of private investment (35). The policy of encouraging foreign investment has resulted in more than 800 projects with US \$9,000 million investment, as shown in Table I.6, Approved Foreign Investment in Indonesia by Country.

In addition to the foreign investments there have been 4,414 projects with about US \$19,700 million (November 1984 figures) approved as the result of domestic investments (36).

Despite impressive GDP growth rates as mentioned earlier, manufacturing industry still plays a minor role as compared with other East Asian countries, and the industrial mix reveals a preponderance of consumer goods produced largely for the domestic market (37). A development in the manufacturing sector for the domestic market needs parallel development in the distribution system, because of the scale

of the economies required in this type of operation. The relationships between economic development stages and the middleman is explained by Bucklin and is presented in Chapter II. One of the purposes of this study is to describe new marketing techniques which seem to offer many advantages in a more developed stage and which have been applied in several companies in Indonesia.

From Table I.6 we may conclude that the "exposure" of Western and Japanese business is high as compared with the centrally-planned countries. How far this exposure is beneficial to the acceleration of Indonesian economic development progress will depend in part on the ability of Indonesian businessmen to adopt or imitate the best techniques. Kilby writes that Schumpeter is the first major writer to put the human agent at the centre of the process of economic development (38). Schumpeter posits a single constitutive entrepreneurial function: innovation (39). In place of innovation Broehl uses "meta-innovation" as the term to describe the LDC-entrepreneurs' function. Broehl writes that Meta-innovation is the adaptation of a concept from the developed world to the special constraints and opportunities of the less-developed countries (40).

TABLE I.6

APPROVED FOREIGN INVESTMENT IN INDONESIA BY COUNTRY
(1967-1980)

Nr.	Country	Project Number	Investment (million US \$)
1.	Japan	198	3,336.0
2.	Hongkong	126	890.9
3.	Canada	5	863.3
4.	United States	77	571.6
5.	Netherland	47	320.0
6.	The Philippines	14	292.6
7.	Australia	37	208.4
8.	West Germany	23	204.9
9.	Switzerland	19	144.6
10.	Singapore	34	129.3
11.	United Kingdom	41	110.8
12.	Taiwan	5	91.3
13.	South Korea	17	73.4
14.	Belgium	15	72.6
15.	India	8	61.6
16.	Malaysia	21	59.6
17.	Poland	1	3.0
18.	Others	44	189.2
19.	MNC	69	1,427.1
	Total	801	9,050.2

Source: Adapted from Sumantoro, Investment Law, Cooperation in Investment and the Indonesian Perspectives, Penerbit Binacipta, Bandung, 1982, p.107.

In the next section the barriers to Indonesian economic development will be described and in particular the problem of developing one of the most important human sources of economic development, i.e. entrepreneur. Entrepreneurship is regarded by some as part of a capitalist system, which has been much criticized for its notorious laissez-faire liberalism which leads to exploitation of man by man and of one nation by another nation (41). Capitalism is not the economic system on which the Indonesian state tends to base its economic development. According to the Guidelines of State Policy 1973, "economic democracy" is the basis for the implementation of development (42). In short Indonesia is a mixed-economy where both state enterprises and private businesses have their part to play. Because a mixed economy is basically a flexible system, the government plays a crucial role in holding the balance between allowing the economic motive to play its role in the private sector and protecting the humanistic aspect of economic development. In the next section various tensions which are part of Indonesian modernization process will be discussed.

C. THE DEVELOPMENT OF INDONESIAN ENTREPRENEURS

In this section the problem of developing Indonesian entrepreneurs will be described, and the focus of this aspect in the study will be explained. Historical records show that trading flourished in many parts of the Indonesian archipelago as early as the seventh century, during the Sriwijaya kingdom and up to the fourteenth century, during the Majapahit kingdom (43). But by a historical accident, i.e. being colonized, the process of economic development was hampered, and there was no significant development in manufacturing until the 1930's (44). The development of Indonesian entrepreneurs, too, has suffered from a similar accident. According to Higgins, in essence, the Indonesian tragedy is a story of repeated nipping off of a budding entrepreneurial upsurge by a political elite essentially hostile to it (45). When the Republic of Indonesia came into existence in 1945, the new elite which took over power included few with entrepreneurial values, skills, or experience (46).

Before World War II, marketing in Indonesia, both in domestic and foreign trade was dominated by Dutch enterprises (47), the indigenous Indonesians, mostly in the rural areas, being engaged in the production of commercial crops and forest products. The Dutch enterprises used middlemen, mostly Chinese, as their agents to distribute imported and home-produced manufactured goods and as their link with millions of producers of smallholders' export products (48).

There have been no explicit statement found as to the reasons for the use by the Dutch of middlemen (and in particular the Chinese), in dealing with the Indonesians.

It is very likely that middlemen were required in order to reach millions of Indonesians over a very wide area. Another possible reason is that foreign minorities (as in Africa and Southeast Asia) have better skills and motivation in trade. Anspach writes that there is some indirect evidence that many of the Chinese in Java, at least, belonged to Chinese language-groups that had specialized in commercial transactions at home (49). It may also be added that a possible reason for appointing Chinese in rural trades was that they can handle goods which allow too small a margin of profit for Europeans, and can undertake more risky ventures (because the penalties of bankruptcy are lighter for a Chinaman than for a European) (50). The strong position of Chinese middlemen is illustrated by Furnivall as "standing between European and native, and necessary to both classes, they were able to levy toll on both. All that the Natives sold to Europeans they sold through Chinamen, and all that the Natives bought from Europeans they bought through Chinamen (51)."

Until recent times the effect of the Dutch segregation policy on ethnic and occupations is extant. As in many countries in Southeast Asia, the Chinese in Indonesia have functioned as a trading minority whose economic power was resented by the indigenous population (52). According to Suryadinata, the "Overseas Chinese Problem" in Indonesia is a sensitive subject (53). This so-called Chinese problem is not confined to the economic field, but is also related to the cultural, social, and political spheres.

In Indonesia there are two distinct Chinese groups (i.e. "peranakans" and "totoks") which are largely the result of differing degrees of assimilation into the indigenous Indonesian communities (54). Peranakan Chinese are Indonesia-oriented. They usually identify themselves with their birth places in Indonesia, not with the provinces in South China from which their ancestors came. They no longer speak any Chinese dialect (55). Totok Chinese, especially the older generation, are less Indonesia-oriented than peranakans. They usually orient themselves towards their birth places in China, or more frequently those of their parents (56).

All Indonesian leaders, according to Suryadinata, perceive the Chinese minority as an alien minority different from the indigenous majority. This minority is exclusive and is strong economically, although there has been little agreement as to how strong the Chinese economic grip really is (57).

Since 1967 the accurate identification of Overseas Chinese through their surnames has become increasingly difficult because a large proportion of Indonesian citizens of Chinese extraction have "Indonesiased" their names. This practice, coupled with the official policy that the ethnic origin of Indonesian nationals should no longer be recorded in official

documents, makes it more difficult to know the precise numbers of Indonesians of Chinese extraction (58). Suryadinata estimates the Indonesian Chinese population was 2.8 per cent of the total Indonesian population (1975 figures), and comprised approximately 43 per cent 'Peranakan' and 57 per cent 'Totok' (1971 figures) (59). This Chinese population percentage is small as compared with that in some neighbouring areas, e.g. Singapore 74.5 per cent, West Malaysia 36.1 per cent, Serawak 32.5 per cent, Brunei 26.3 per cent, Sabah 23.3 per cent and Thailand 8.5 per cent (60).

Although the percentage of Indonesian Chinese is small and this community is not as homogeneous as some Indonesian leaders suppose, there is, however, a condition of inequality that is generated by what is called the majority-minority phenomenon. The majority (which is the Indonesians of local ethnic origin, or some call it indigenous Indonesians) suppose that the minority (which is the Chinese group, or some call it the non-indigenous group) are better-off economically, being in a position to monopolize economic resources and develop faster (61). Mely Tan discusses this majority-minority situation in Indonesia from the socio-structural point of view. She lists some of the attempts which have been made by the Indonesian government, under both the Old and New Order, and other movements to promote Indonesian entrepreneurs. The earliest movement recorded was Sarikat Islam, formed in 1912, which was very active in promoting Indonesian entrepreneurs and at the same time breaking the grip of the Chinese community (62).

Anspach concentrates his study on the indigenization process which took place in the early days of Indonesian independence (63). Indigenization is the process of approximately aligning the socially-defined structure of economic power with the ethnic composition of a society (64). He classifies various measures which were taken by the Government to promote indigenization in the private sector in two broad categories: credit indigenization and decree indigenization. Credit indigenization consists mainly of financial aid in the form of loans granted to the favoured business, while decree indigenization encompasses edicts which reserve specific areas to indigenous business (65).

The most oftenly quoted unsuccessful attempt to promote indigenous Indonesian is the "Benteng System" introduced in the early 1950s (66). The purpose of introducing this system was to encourage the growth of an indigenous Indonesian entrepreneurial class which could begin with the relatively simple problems of import trade and then branch out into other undertakings (67). This protective measures, by issuing import licences only to indigenous entrepreneurs, did not achieve its objectives. A number of those who enjoyed these privileges amassed wealth not by developing their own businesses but by acquiring import licences and selling them to importers of foreign origin (68). This selling of licence arrangements often turned into a joint

endeavour of the Ali-Baba type, whereby the Ali-partner (the indigenous Indonesian) supplied his name and the licence and the Baba-partner (the Indonesian of Chinese descent) provided the capital and entrepreneurship (69).

During the New Order Government there was (and most probably still is) a similar type of Ali-Baba alliance, i.e. Cukongisme. This type of alliance resembles the Ali-Baba partnership of the fifties, with the difference that in "cukongisme" the ethnic Indonesian partner is usually a person in a high civilian or military position, whereas in the Ali-Baba alliance the Ali component could be any ethnic Indonesian provided he could acquire a licence (70). It is interesting to note that the term "Ali-Baba" is also used in Malaysia to denote the same phenomenon (71). These Ali-Baba and Cukongisme phenomena can serve as illustrations of a possible failure to develop a new strong entrepreneurial class with a protective measure approach.

The majority-minority phenomenon mentioned earlier is not exclusively Indonesian. Many other LDCs have minorities who excel in business, such as Lebanese in West Africa, 'Asians' in East Africa, the Chinese in Southeast Asia, or Armenians, Jews, and Greeks in Turkey (72). There may, however, be some differences in the structure and characteristics of this phenomenon in those countries, owing to the characteristics of the majority group and the minority group. Those characteristics (such as the degree of integration of the minority group into the nation) will influence the extent of government measures to improve the majority's economic and entrepreneurial situations which are usually very "weak". An analysis of the differences in the majority-minority structures and characteristics in some selected countries is presented in Table I.7, which presents a hypothetical relationship between the extent of government action to improve the majority's economic power and the degree of the minority's integration into the nation. The greater the degree of integration, the less drastic is the government action to improve the majority's position and or economic well-being. The recent Indonesian government action is less drastic than that of Malaysia and some Africa's countries, e.g. Tanzania, Ethiopia, Uganda, Algeria, Mozambique and Angola (73).

The New Order Government has introduced economic policies favouring indigenous Indonesians. Apart from billions of rupiah in credit given to farmers, there have also been billions of rupiah allocated for Small Investment Credit and Small-Permanent Working Capital Credit (in the KIK and KMKP programmes) (74). There are still various types of facilities such as government procurement programmes provided by the government for the economically weak group. And in addition to this several private agencies and universities are offering various types of assistance to this group. These various efforts are part of a larger measure to cope with more complex socio-economic problem: the widening gap

TABLE I.7

SOME MAJORITY-MINORITY STRUCTURES AND CHARACTERISTICS
IN SOME SELECTED COUNTRIES

EAST AND WEST AFRICAN COUNTRIES	MALAYSIA	INDONESIA	THAILAND AND THE PHILIPPINES
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A. MAJORITY-MINORITY STRUCTURES

The plural society structure is preserved, e.g. Europeans, 'Asians' and Africans.

The minority group occupies specific economic functions which the Africans still cannot handle.

There are three distinguishable ethnic groups, i.e.

- Malays - 54%,
- Chinese - 36%,
- Indians - 10%.

Each group would like to preserve their own ethnic identity.

The majority consists of about 300 ethnic groups

The minority gradually considered themselves as part of Indonesian nation, especially the "Peranakan" Chinese.

Nonetheless, they would like to preserve their "Peranakans" identity.

The Sino-Thai were absorbed into Thai community and became Thai.

The Chinese mestizo in the Philippines became indistinguishable culturally with the 'Filipino'.

B. THE DEGREE OF INTEGRATION OF THE MINORITY GROUP WITHIN THE NATION



The minority is socio-culturally not integrated in to the nation

Somewhat low

Somewhat high

The minority is socio-culturally integrated in to the nation

C. SOME GOVERNMENT MEASURES TO IMPROVE THE ECONOMIC PARTICIPATION OF THE MAJORITY GROUP

Drastic measures e.g.
- Socialistic approach:
1) State enterprises
2) Cooperative systems
- Africanization of some business sector, e.g. trade.

Relatively drastic measures e.g.
- Parastatal enterprises
- New Economic Policy, i.e. by 1990 Malays own and control at least 30% business.

Less drastic measures, e.g.
- The gradual improvement of the "weak group"
- The symbiotic business relationship

There is no need to distinguish the business activity of this group.

between the rich and the poor, the strong and the weak, the urban and the rural. According to Emil Salim, Indonesia's rapid economic growth (owing to the opening-up of the Indonesian economy to foreign investors and the introduction of new investments in import substitution industries of the modern sector) has resulted in a widening gap between the modern sector and the traditional sector (75). Since the traditional sector is occupied by indigenous entrepreneurs and the modern sector by foreign or non-indigenous entrepreneurs, this development distorted the picture focused upon the issue of indigenous versus non-indigenous as part of the overall problem of equitable growth (76).

Will this inequality problem grow bigger owing to the sustained growth of the economy? Hoogvelt writes that there is no firm empirical basis for the view that higher rates of growth inevitably generate greater inequality, though there is some evidence that income inequality first increases and then decreases with development (77). She does not, however, say whether this reverse trend is due to a natural process of economic growth or to a constant purposeful effort to fill or narrow-down the gap. In this inequality problem, which must lead to discontent, it is probably better not to assume that an invisible hand will solve it.

Adelman mentions the economic development success stories of Taiwan, South Korea, Japan, Israel and Singapore (among nonsocialist countries) and China and Yugoslavia (among socialist ones). These countries were able to avoid the "widening gap" phenomena in their economic development. According to Adelman, these countries have adopted the redistribution-before-growth strategy (78). She proposes that other developing countries should attempt to replicate this strategy (79).

What can vertical marketing systems or linkage systems contribute to filling or narrowing down the gap? There is some indication that a linkage system can produce a strong continuing cooperative relationship between the strong and the weak groups or between large and small enterprises. Some Third-World countries (e.g. India and Indonesia) are developing this linkage system in their industrial sectors as part of the solution to this inequality problem.

The Japanese success in building a linkage system between large manufacturers and their sub-contractors has been acknowledged as the model for developing small manufacturing firms, because this system encourages the transfer of technology to the small firms and hence helps their growth (80). Many benefits have been listed as resulting from this backward linkage system, for instance the ability to provide large number employment and to achieve greater equality in the economic field (81). In 1960 the Government of India took a deliberate decision to promote small-scale industries as ancillary units to large firms (82). Indonesia (83) and the Philippines (84) have taken the same

step in some sectors, such as car and electronics manufacturing. In Indonesia this system is known as 'Bapak angkat' (Foster father). A business linkage system, however, is not the whole answer to this complex sosio-economic problem.

Some writers on the entrepreneurial issue in Indonesia, such as Lasserre (85) and Siregar (86), tend to narrow-down the socio-cultural issue of the Indonesian entrepreneur development to the Javanese ethnic group's social behaviour. The following are two of the reasons for this tendency:

1. Javanese whose homelands are in Central and East Java, and who account for 45 percent of the Indonesian population, are the biggest ethnic group among some 300 such groups. The second-biggest ethnic group are the Sundanese of West Java, 14 percent, and each of the remaining groups is less than 10 per cent. Although size is no reliable indicator of importance, the Javanese have inevitably set their stamp on much of Indonesian life (87).
2. Indonesians of Javanese origin are strikingly under represented in the entrepreneurial class, in that their relative share is far below the ratio of their number to the total population (88). According to Siregar the majority of the nationally known entrepreneurs in Indonesia come not from Java but from the Outer Islands, particularly from Sumatra (89). Anspach writes that some of Indonesians ethnic groups who excel in business in the present time are the Toba Bataks, the Minangkabau, and the Menadonese (90), and it is popularly believed that some other Indonesian ethnic groups are also good in business, e.g. Bugis (91).

Why do the Javanese perform so poorly in the business fields? The following is Siregar's view on this aspect:

"While a substantial number of Indonesians of Javanese origin display a strong need for achievement in certain areas of activity such as public administration, medicine, art, and science, their need for achievement in the business field is generally not as strong as that of the Chinese or of Indonesians from certain parts of the Outer Islands (92)."

The foregoing view tells us more about one of the reasons for the small number of Javanese in the business field, but it does not yet fully explain the poor performance of those who are in the said field. On the basis of his study in Modjokuto in Eastern Central Java, Geertz explain the characteristic of indigenous Islamic small businessmen as follows:

"What the entrepreneurial group of Islamic small businessmen most lacks is not capital, for in terms of the realistic opportunities for innovation which they actually have, their resources are not inadequate; not drive, for they display the typically "Protestant" virtues of industry, frugality, independence, and determination in

almost excessive abundance; certainly not a sufficient market, for the possibilities for significant expansion of both trade and industry stand apparent in Modjokuto on all sides. What they lack is the power to mobilize their capital and channel their drive in such a way as to exploit the existing market possibilities. They lack the capacity to form efficient economic institutions; they are entrepreneurs without enterprises (93)."

This view of Geertz's that Javanese businessmen display some of the ideal entrepreneurial characteristics such as the typically "Protestant" virtues of industry, frugality, independence, and determination, is parallel with Van Mook's findings on his study of the town of Kota Gede in Central Java, although Van Mook uses different terms to describe it. He writes that the superior performance of the Javanese businessmen is unmistakably psychological, especially as regards self-reliance and candid level-headedness in behaviour and action. Under the conditions of money scarcity brought-on by the great depression, many Javanese merchants overcame their supposed non-commercial characteristics and went into the money-lending business with zest (94).

On the other hand, there are criticisms that Javanese social behaviour is basically not conducive to entrepreneurship. Lasserre, for instance, mentions what he calls the Javanese cultural and political system as follows (95):

- the suppression of individualism, i.e. the concept of the extended family
- the preference for conformity rather than achievement
- the prestige that attaches to military and official government posts
- limited time-horizons and the search for quick returns
- a low propensity to save
- a negative attitude to risk-taking.

Reading through Lasserre's above-mentioned list, one is tempted to conclude that the Javanese are not yet at the stage of modern societies. It is interesting to compare the list with Streeten's list: The Characteristics of the Backward Indigenous Sector of a Poor Country, as mentioned earlier. Myrdal provides the following concept of the characteristics of modern man, i.e. efficiency, diligence, orderliness, punctuality, frugality, honesty, rationality, change-orientation, integrity, self-reliance, cooperation, and willingness to take the long view (96).

Comparing the views of Geertz, Van Mook, Lassere, and Myrdal, we can conclude that in some social behaviour the Javanese have displayed some of the characteristics of "modern man" but that some are still lacking. As has been mentioned earlier, modernization is not westernization or the adoption of capitalism with its three-conceptual framework and behavioural assumptions, i.e. consumer sovereignty, perfect

competition, and profit maximization (97) . Those elements which seem lacking (such as the characterization of indigenous Indonesian as being uninterested in maximization) may be false. Belshaw writes that there is ample evidence that Javanese, Macassarese, and other Indonesian traders were rich, active, and strong in the sixteenth and seventeenth centuries, and that no writer analysing that period could accurately describe Indonesian society as being traditionally uninterested in commerce or in maximization (98). If there is a distinction about maximization, it is because the maximization is of different things with different values and using different methods (99). It is indeed a complex issue to discuss the maximization or socio-psychological motives of the Indonesian businessmen.

Boeke's theory of social and economic needs may serve as an example of the fact that different values may be attached to material goods and services by differing groups in society. The following is how Boeke differentiates those needs:

"...social needs find their origin in norms set by the social collectivity, it follows that the means (material goods or services) gratifying those needs will not provide satisfaction merely by meeting the personal standards set by the person producing or rendering them, but only if and to the extent that they come up to the general norms which society imposes on such goods or such services.

Economic needs, on the other hand, are those which man does not feel in his quality as a member of the collectivity, but as a separate individual, so that the goods by means of which such demands have to be met can gratify the person desiring them only if they meet his individual requirements: they are measured by his criteria (100)."

Gasse writes that the rational decisions of entrepreneurs are inevitably restrained and coloured by the cultural milieu (101). From the foregoing discussion we can conclude that the use of western criteria to evaluate the entrepreneurial aspect of Indonesian entrepreneurs, such as profit maximization, have to be treated with caution (102). This study will analyse only a limited aspect of the small business' motives and social behaviours in a vertical relationship system.

The search for a typology of new modern Indonesian man will probably be a never-ending process. We may not, however, expect the majority of Indonesians to become entrepreneurs of the Schumpeterian type in the next couple of decades. Most of the future businessmen will be in the small business sectors. The following is a summary written by Sadli of the problem of developing Indonesian entrepreneurs as part of a larger socio-economic problem.

"Actually, the country has a great number of potential domestic entrepreneurs in the Chinese minority, but for political reasons related to the problem of 'social justice' and equity, it will not be politically possible to make maximum use of this potential. I know President Suharto is struggling with this problem. His concept is business integration between indigenous and non-indigenous groups without racial discrimination. Social and cultural integration is much more difficult. Social integration is a long-term process through education. And here we have to note that when there are great differences in religion, this social and cultural integration is not easy. Business integration-working together within one enterprise may be more feasible. It is being tried now. But this is relatively new, so we still cannot see the result of this (103)."

With regard to the indigenous trader group, the key issue is not primarily how to increase the number of traders, because their number is much larger than the non-indigenous, particularly in small-scale trading and informal sectors (104), but the development of their capabilities to engage in modern types of trading. The ability to operate on a large-scale is one of the characteristics of modern trading (105). From Table I.8 we may conclude that large and medium scale trading are disproportionately in the hands of non-indigenous peoples (see column percentage). Thus, although there are some large-scale indigenous traders the vast majority are small.

On the basis of America's early 20th century experience in retail trade innovation Palamountain writes that all of the five major innovations in retail distribution, i.e. the department store, the mail-order house, the chain store, the supermarket, and the voluntary chain, are basically an attempt to secure the advantages of large-scale organization (106). Palamountain further explains that the key issue in distribution's basic conflict is one between large-scale and small-scale organizations, between new and old methods of organizing marketing (107). An exposure to operating in modern types of distribution, such as VMS, may therefore help the indigenous group to "catch-up" with the evolution of Indonesia's marketing and distribution systems in particular (108).

A detailed structure of Indonesia's trade in terms of size, ethnic, and location of traders is presented in Table I.8. There were approximately 850.000 registered traders by the end of 1984. Those who were not registered were mostly in the informal sectors and can be assumed that they were mostly indigenous. It has been estimated that 80 per cent of the work-force in trade was considered to be in the informal sector (109). Approximately 55.4% of traders were in Java, in particular the large-scale traders.

Indigenous traders were dominant in all the three categories (i.e. large, medium, and small scale), and in particular in small-scale trading. The percentage shows, however, that

TABLE I.8

THE NUMBER OF REGISTERED TRADER BY SIZE, ETHNIC, AND LOCATION

	<u>INDIGENOUS</u>		<u>NON-INDIGENOUS</u>		<u>TOTAL ROW</u>	
	x	%	x	%	x	%
LARGE SCALE						
Java	15,295	2.4	9,711	4.6	25,006	2.9
(Jakarta)	10,546	1.7	4,414	2.1	14,960	1.8
Outer Islands	<u>10,151</u>	<u>1.6</u>	<u>4,689</u>	<u>2.2</u>	<u>14,840</u>	<u>1.7</u>
Total	25,446	4.0	14,400	6.8	39,846	4.7
Column %	63.9		36.1		100	
MEDIUM SCALE						
Java	75,741	11.9	49,489	23.5	96,230	11.3
(Jakarta)	15,786	2.5	10,122	4.8	25,908	3.0
Outer Islands	<u>67,506</u>	<u>10.6</u>	<u>33,309</u>	<u>15.8</u>	<u>100,815</u>	<u>11.9</u>
Total	143,247	22.4	82,798	39.2	226,045	26.6
Column %	63.4		36.6		100	
SMALL SCALE						
Java	287,825	45.1	61,292	29.1	349,117	41.1
(Jakarta)	26,939	4.2	10,119	4.8	37,058	4.4
Outer Islands	<u>182,160</u>	<u>28.5</u>	<u>52,463</u>	<u>24.9</u>	<u>234,623</u>	<u>27.6</u>
Total	469,985	73.6	113,755	53.9	583,740	68.7
Column %	<u>80.5</u>		<u>19.5</u>		<u>100</u>	
Grand Total	638,678	100	210,953	100	849,631	100
Column %	75.2		24.8		100	

Source: Bina Usaha Perdagangan, 31 Desember 1984.

Notes : - The amount of capital is used to classify the traders
 Large scale : Rp. 100 million and above
 Medium scale : Rp. 25 m. - Rp. 100 m.
 Small scale : less than Rp. 25 m.
 1 US \$ is approximately between Rp. 1,000 - Rp. 1,100.
 - Jakarta is in Java island.

trading was the major activity of the non-indigenous minority group, and large-scale trading in particular was disproportionately in the hands of the non-indigenous group (110). Dewey explains the Chinese social structure and its relationship to commercial practices. It is interesting to note that on the basis of their commercial practices the Chinese are able to build trade where large amounts of capital and long-range planning are important, that is, in wholesaling and the handling of imported goods. This is in contrast with most of the Javanese traders whose commercial practices limit their operations (111). The numbers of Chinese in Java and in the outer Islands are almost equal (112). From Table I.8 we can conclude that more of the Chinese engage in trading in Java than in the Outer Islands. Jakarta as the country's capital and one of the metropolitan areas played an important role in trade by accomodating approximately 37.5 per cent of the large-scale traders.

From the various issues discussed earlier we may conclude that the development of Indonesian business entrepreneurs faces the following situations:

1. There is a widening gap between the modern sector and the traditional sector. The traditional sector, which mostly consists of indigenous Indonesians, is having difficulty in "catching-up" with modernization. This issue has wider social-economic implications such as the following dualism problems: majority-minority, indigenous-non indigenous, rich-poor, and urban-rural.
2. There is a growing pressure to diversify export markets and commodities. The current dependency on oil is regarded as not viable for the immediate future. The next biggest export commodities (i.e. other minerals, forest and agricultural products) may take over the role of oil as the main foreign-currency earner, but in the future the product-mix should include more manufactured and finished goods. Therefore, there is a need to increase the number of entrepreneurs, especially in the modern economic sector.
3. The development of new entrepreneurs through protectionism, privilege-systems, and so on may not produce the expected results, i.e. a new strong Indonesian entrepreneurial class.
4. There is a pressure to develop new business entrepreneurs from groups in society which are under-represented and most likely do not have experience in business fields.
5. The Indonesian government is committed to developing the small business private sectors. Various measures have been taken which are part of a larger socio-economic development effort to solve the problems of growth, equity, and stability.

D. SMALL BUSINESS AND COMMERCE: THEIR CONTRIBUTION

In this section the possible contributions of small business and commerce to economic development are discussed. Lerner attributes the speed of 'modernization' to the development of commerce, to industrialization and to the spread of literacy and mass communications (113). Kindleberger writes that economic development through industrialization should be preceded by commercialization and the industrial revolution by the commercial. To curtail the evolutionary process and attempt to turn a subsistence economy into an industrial one forthwith may find the society badly equipped in capacity for transport and distribution (114). Kindleberger further adds that this is especially the case in those countries which over long periods of time have relied on foreign traders to perform the necessary commerce, such as the Chinese merchants of the Philippines, Malaysia, and Indonesia or the Armenians, Jews, and Greeks in Turkey (115). In some cases, such as Japan, however, industrialization moved very rapidly, and marketing capacity increased *pari passu* rather than in advance (116). The "Clark and Fisher" thesis, as has been mentioned earlier, states the growing importance of commerce and services as source of income and employment (117). Preston's study concludes that there is a correlation between marketing employment and the economic level (118). Correlation, however, does not explain causation. He argues that the increase in the GDP (which means the increase of the level of income) of those countries somewhere in the early period of industrialization (119) will cause a shift in consumption towards durables, style merchandise, and branded and packaged goods. These changes in goods consumption lead to increased marketing activity (120).

There seems to be contradictory arguments, between Kindleberger and Preston as to which comes first, the activity of commerce or economic growth. It is clear that both factors grow through an evolutionary process. And on the basis of the foregoing views we can assume that the two-factors reinforce each other. Bucklin argues that growth of the economy causes the development of retailing, such as the growth of new types of retail methods is a part of industrialization. On the other hand, the middleman causes the growth of the economy, such as the aggressiveness of the middleman opens the door to expansion in production and better fulfillment of demand (121).

The same argument applies to the relationship between small business and economic development. Many countries which have reached the developed stage (such as Japan and United States) assert small business in various ways to sustain the country's economy. On the other hand, Charlesworth argues that the probability of success of new small business firms and the survival chances of existing firms depend heavily upon sustained and rapid national economic growth (122).

What is the specific contribution of the small business sector to the economy? And in particular what is their specific contribution to the Third-World socio-economic situation? Many writers have expressed the view that small firms are vital for the economy. The role of small firms in the economy is clearly enumerated in the Bolton report, and is quoted here as being representative of various views from developed countries (123).

- i. The small firm provides a productive outlet for the energies of that large group of enterprising and independent people who set great store by economic independence and many of whom are antipathetic or less suited to employment in a large organisation but who have much to contribute to the vitality of the economy.
- ii. In industries where the optimum size of the production unit or the sales outlet is small, often the most efficient form of business organisation is a small firm. For this reason many important trades and industries consist mainly of small firms.
- iii. Many small firms act as specialist suppliers to large companies of parts, sub-assemblies or components, produced at lower cost than the large companies could achieve.
- iv. Small firms add greatly to the variety of products and services offered to the consumer because they can flourish in a limited or specialised market which it would not be worthwhile or economic for a large firm to enter.
- v. In an economy in which ever larger multi-product firms are emerging, small firms provide competition, both actual and potential, and provide some check on monopoly profits, and on the inefficiency which monopoly breeds. In this way they contribute to the efficient working of the economic system as a whole.
- vi. Small firms, in spite of relatively low expenditure on research and development by the sector as a whole, are an important source of innovation in products, techniques and services.
- vii. The small firm sector is the traditional breeding ground for new industries—that is for innovation writ large.
- viii. Perhaps more important, small firms provide the means of entry into business for new entrepreneurial talent and the seedbed from which new large companies will grow to challenge and stimulate the established leaders of industry.

The important role of small business firms in the Third World has been stressed by many scholars, for instance by Charlesworth, Harper and Slater, on the basis of their many years of experience in those parts of the world. Charlesworth writes as follows:

"The simple and abundant labour supply, much of it unemployed with even more under-employed, the scarcity of capital, the lack of a large pool of entrepreneurial and managerial talent, the unfamiliarity with the corporate form of enterprise, the fragmentation of the local market, the strong differences between taste and custom found in different regions of the same country all point to the possibility of an economic advantage in the small scale firm and plant (124)."

In the small business retailing in the Third World Harper writes as follows:

"Local small-scale traders play a particular and vital role in development; they supply and market many of the raw materials and products of larger and small-scale manufacturing enterprises, they supply inputs and market the products of agriculture, which is likely to remain the single most important sector of the economy for many years in most developing countries, and they provide basic necessities to the mass of the rural and urban poor in places, at times and in an environment which satisfies their needs. Even if small scale traders did not in themselves play a vital role, most small-scale manufacturing enterprises evolved from purely trading activities; they should be encouraged as a source of industrial entrepreneurs (125)."

In line with Harper's view, Slater et al. stress the increasing importance of trade, or an exchange system, as an agrarian society is transformed into a modern industrial society (126). Collins and Holton write that distribution can play an active role in economic development by changing demand and cost functions both in agriculture and in manufacturing in a way favourable to expansion (127). According to Bucklin, when the economy develops and the process of production is split from consumption, the function of distribution is to bridge the resulting gaps in time, place, and ownership (128).

Despite so many favourable arguments for developing the small business sector, there have been unfavourable treatments, distrust, and low social status given to those engage in this sector, and in particular to small business retailers. Some of the criticisms of the small business sector are valid, such as the unscrupulousness and lack of ethics of some of the traders, and the low efficiency of some of small business production processes (129). Some of those negative factors, however, can be eliminated through various measures

such as increasing competition in order to stop exploitation, training, guidance, and cooperative efforts. The positive side of the contribution of the small business sector may be so vital to the economy, such as the function of being a breeding ground for future industrialists, and to absorb employments, that it warrants government support.

The above-mentioned benefits of the small business sector are relevant factors for reinforcing Indonesian economic development and solving some current socio-economic problems. The simple and abundant labour supply, the lack of a large pool of entrepreneurial and managerial talent, and other factors mentioned by Charlesworth earlier, are facts that lead to favouring the small business sector. Also, the small business sector in manufacturing, trade and services in Indonesia is expected to create employment to a large degree. It has been said that between 30 and 60 per cent of the work force are in the informal sectors. The percentage of the work force which is considered informal in trade is 80 per cent, industry is 60 per cent, and transportation is 50 per cent (130). According to Glassburner and Poffenberger, agriculture and services must continue to bear the largest share of the employment-absorption burden, because labour intensification in manufacturing, the most often mentioned solution, could not possibly be sufficient by itself in the fourth of Indonesia's five-year plans (131).

Small business firms and in particular small business retailing are regarded by many, such as Bolton (132) and Light (133) as the main avenue for entering the business community, and as an upward-mobility avenue for the disadvantaged. As has been mentioned earlier, Harper suggests that small-scale traders should be encouraged as a source of industrial entrepreneurs (134).

According to Roepstorff, the likelihood that the Indonesian oil sector will not support the balance of payments and the government budget to the extent that it did in the 1970s (because of both less favourable world prices and diminishing exportable surpluses) poses the need for an alternative engine of growth, and judging all past development experience manufacturing is the most likely candidate (135). The solution to Indonesia's employment problem most often mentioned is labour intensification in manufacturing (136), and in particular for the export market (137). Of course, industrialization is not the only solution to the Indonesia's employment problem, but it certainly is one of the necessary steps towards solving unemployment in overpopulated agrarian areas such as Java (138) and Japan (139). Mountjoy mentions three customary objects of industrialization, namely (1) to provide work for growing populations, (2) to raise the standard of living, and (3), often, to improve balance of payment situations (140). What can small business and commerce contribute to industrialization?

Alexander studied the origin of industrialists in four countries: Greece, The Philippines, Pakistan, and Turkey. The origin of industrialists studied are craftsmen, big merchants, small merchants, industrialists, professional men, business executives, farmers, and others. Alexander writes "The evidence is conclusive that more industrialists have been recruited from the ranks of merchants than from any other group...The contribution of merchants, whether first or second generation, emphasizes the importance for industrialization of the earlier development of trade and of commercial class (141)." Alexander explains in detail why merchants are more likely to become industrialists. The following are several distinct reasons account for the merchants' high productivity of industrial entrepreneurs (142).

1. Unlike other potential industrialists, merchants are already entrepreneurs. The market economy is already their milieu; they are accustomed to responding to market incentives and to exposing themselves to business risks.
2. Merchants also possess business skills, albeit of a particular kind. Merchants are skilled in buying, selling, employing others, and in making contracts.
3. Merchants are also likely to possess capital which may be substantial if past conditions have favoured the accumulation of mercantile profits. The possession of financial resources confers a special advantage on potential industrialists, especially in countries in which the financial system is undeveloped and the possibilities of drawing on other people's resources are limited. (The various credit facilities currently provided by the Indonesian government reduce the pressure on the part of entrepreneurs to accumulate substantial capital in order to move to activities requiring bigger capital).
4. Merchants are also more likely to be able to cope with uncertainty as a major obstacle to entry. This is not only because of their particular skills but also because they probably already have their own distribution networks, they are more sensitive to particular product specifications, and they are generally closer to the market on the demand side of their contemplated industrial projects. These conditions also help explain why merchants often go into the production of goods which they formerly bought and sold.

For all these and probably other reasons, merchants more readily respond to opportunities in industry. The differential advantage of merchants to become industrialists, however, is dependent upon the country's stage of socio-economic development (143). In the early phases of development when small and simple enterprises are more viable, craftsmen may have an advantage as potential industrialists. They can expand the scale of their operations to the level of a small industrial firms without great changes in technology and

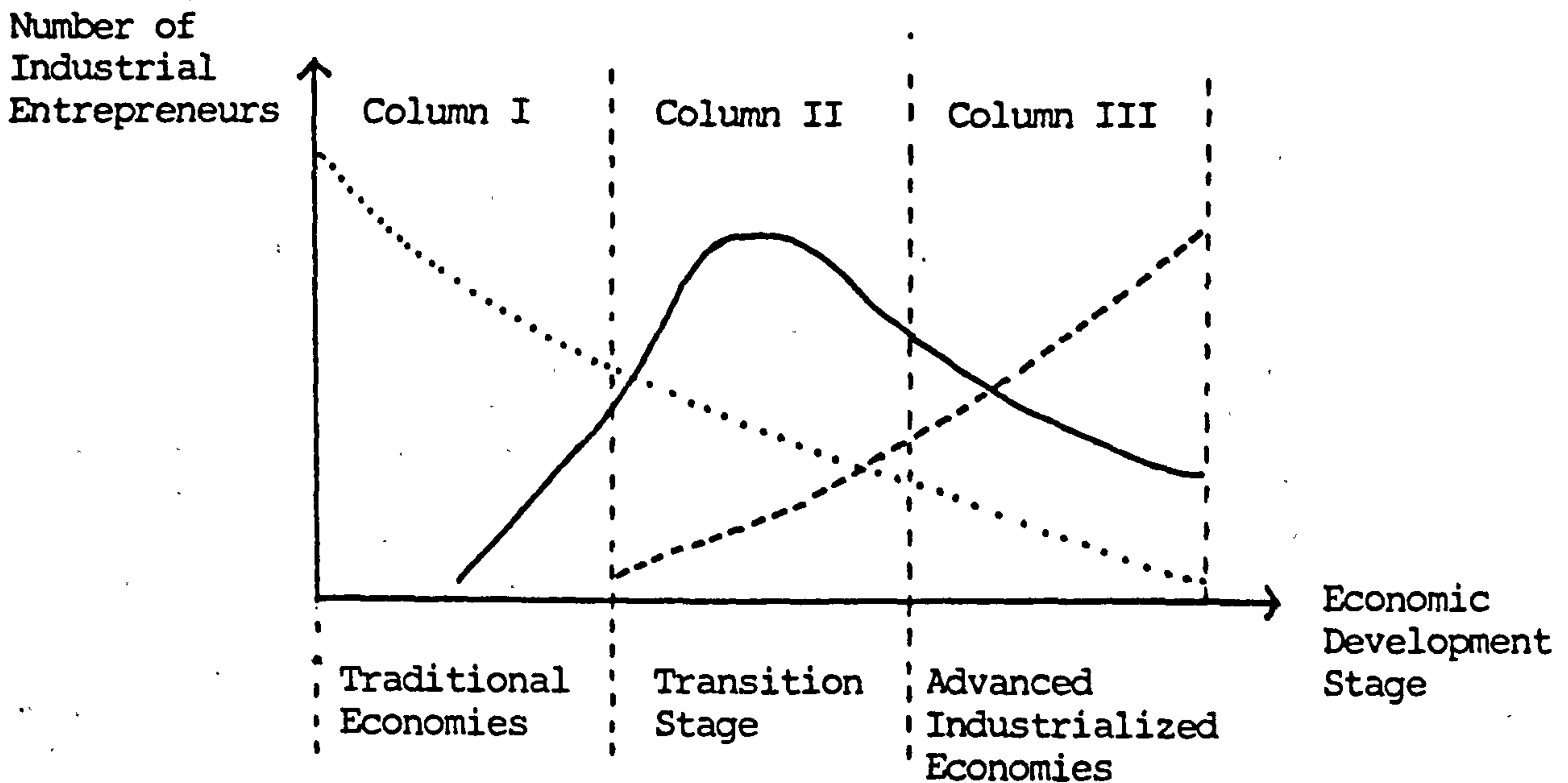
management methods, and without having to rely on a great deal more information about their market environment. Later on, however, as industrial enterprise increase in size and complexity, and the need for the complementary factors is greater, the differential advantage for entry may shift to the merchants. Apart from the fact that merchants are already entrepreneurs, they have the advantages of possessing at least some capital and some special management skills, and of having access to certain types of market information. At still more advanced levels of development, the need for understanding and appreciating sophisticated technology and managerial methods confers some advantages on the now more numerous technically-trained professional men and business executives, or on those who can mobilize these talents. The need for capital and the flow of information are also greater, of course, but these are more easily forthcoming from the more developed economic environment. An example of this last stage of economic environment which made professionals become industrialists is the spin-off phenomenon. Bruno and Tyebjee discuss the environment for entrepreneurship of this type (144).

On the basis of the foregoing discussion, and by using Alexander's research findings on industrialists former activity (145), the following hypothetical diagram is constructed (Figure I.2: The New Sources of Industrial Entrepreneurs). The diagram shows the relationship between economic development stage and new sources of industrial entrepreneurs. In this diagram, second-generation industrialists are omitted, for the simple reason that they are born industrialists. Most of the Third World countries are in column I, traditional economies, and column II, transitional stage. Those countries which have very low percentages of industry and service outputs as compared with GDP (such as Chad and Uganda) are most likely in column I (146). The United States with its silicon valley phenomenon may represent column III (147). It is most likely that Indonesia is somewhere in column II. It means that new industrialists are expected more from merchants, although other occupations may also contribute. As the economy grows and more Indonesians are having higher education, the new industrialists will come more and more from professionals and business executives.

The earlier discussion on reinforcing phenomenon, and the evolutionary process in the development of small business sector and country's economy, lead us to the following conclusions:

1. It is very likely that one of the reasons for the failure of attempts to develop small business entrepreneurs (as happened in the "Benteng System" in Indonesia), derives from the incompatibility between the growth expected in this business sector, the country's economy, and the time horizon factor. The new entrepreneurs were expected to do too much in a very short period of time, while the country's economy was expected to make a sudden jump from the

FIGURE I.2

THE NEW SOURCES OF INDUSTRIAL ENTREPRENEURS

Notes:

- : Craftsman
- : Merchant
- : Professionals

traditional economic stage to a modern economy.

2. It is very likely that a promotion of small business entrepreneurs may only make significant impact on the country's economy at some far distant future. In this case small business development is synonymous with business education.

E. PROBLEMS OF THE SMALL BUSINESS

Aspects discussed in the literature on small-business problems can be broadly classified into the following dimensions:

1. Stage of operation
 - Start up
 - Survival and growth
2. Location of the source of problem
 - Internal, e.g. psychological, financial, knowledge

and skills.

- External, e.g. market, competition, regulation, financial facilities, etc.

In this study of the place of small business in VMS in Indonesia, the author has had to use many European and North American references. Maruyama writes that in the study of management, as well as in other fields of social and psychological sciences, there has been a strong tendency to use European and North American conceptualizations, theories, and assumptions in research formulation, structure of data-collection, and framework of data-analysis in studies conducted in Asian, African and Arab countries (148).

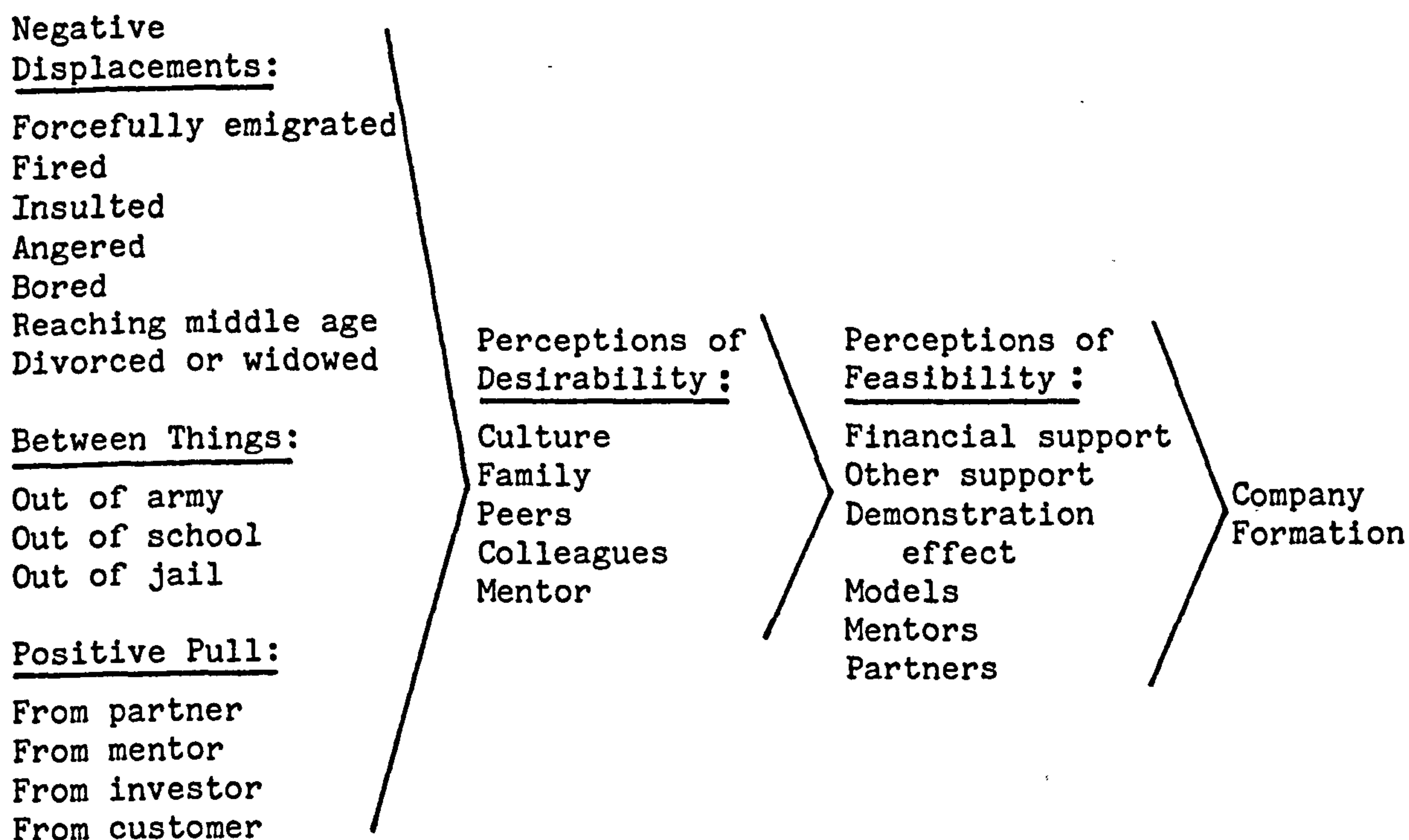
The problem in the start-up stage of small business is focused on the entrepreneurial aspect of starting a new business and the necessary skills and knowledge to spot opportunities and turn one of the best opportunities into a viable project. Collins and Moore discuss extensively the various problems and factors which surround the creation of independent-business. They also contrast independent-business creation, which is the function of the independent entrepreneur, with the creation of organizations as an extension of existing structures, which is the product of administrative entrepreneur (149). According to Collins and Moore, the creation of a business requires something more than technical knowledge. It requires an inner force that can be translated into mastery over the checks and setbacks, the apparently insurmountable obstacles, and the never-ending stream of difficulties with which any man who performs a truly creative act must cope (150). Collins and Moore trace the childhoods of independent entrepreneurs. Their childhoods laid the foundations of the skills and the character structures for creating their own organizations (151). Most entrepreneurs as children were caught-up in dramatic dangerous, and difficult crises. In contrast with big business and federal government executives, entrepreneurs look back on childhood as a time of storm and stress (152).

The problem of small business may start when someone decides to enter a particular business without the necessary psychological and financial resources for it. The high failure rates among independent ventures, which is discussed elsewhere, clarifies that there are crucial factors which one has to have in order to start a business and survive. It is very likely that a high-potential venture (i.e. one started with the intention of its growing rapidly in sales and profit and becoming a large organization) requires markedly different personal factors on the part of the entrepreneur from those needed for a marginal venture (i.e. one started with the intention of providing reasonable support for its owners or as an alternative employment only). It is, however, not enough for a new entrepreneur to have only the psychological motive. Another factor which may influence success in launching a venture, especially a high potential one, is the environment supporting factor. A large firm in a linkage

system may serve as an important supporting factor both at the start of the business and thereafter. Collins and Moore's findings on the importance of personal factors which drive someone to start-up a new business can be classified as a "push" factor, or in Shapero and Sokol's term a "negative-displacement" factor. There are other factors which lead to and influence the formation of a company, such as the positive pull factors, e.g. an invention. Shapero and Sokol produce a diagram on factors which may lead to company formation. The diagram is presented in Figure I.3. The creation of a business is the result of the interaction of many of these factors, and it is very unlikely that the creation is the result of only one factor. For example with regard to the "storm and stress during childhood" factor (of which in the Third World there are many) we may assume that not all displaced persons will become entrepreneurs.

FIGURE I.3

FACTORS WHICH INFLUENCE COMPANY FORMATION



Source: A. Shapero and L. Sokol, The Social Dimensions of Entrepreneurship, in Encyclopedia of Entrepreneurship, C.A. Kent et al., eds. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1982, p.83.

As has been mentioned earlier there are environment supporting factors. Some of the assistances provided by private agencies, large companies, and government in the Third World are aimed at helping new entrepreneurs to start-up. For example, joint programmes between companies and government have been set up in Indonesia to help young

persons to start new business, such as in mechanical and electrical repair-shops. These various assistances can be classified as "pull-factors". The presence of both the push and pull factors may greatly reduce the problems of small business at the start-up and survival stages.

In the small retail business context Dawson does not agree that the aim or policy for this business sector should be to make it easier for new small businesses to start up and for existing small business to expand. He writes as follows:

"Within retailing small business start up is not a problem - continued trading at an economic level is the issue. Given the numbers of small business then expansion for all, or even for any but a handful, is not a viable aim. The position with retailing may well be very different from other sections of the economy. In retailing the aim needs to be the creation of a more stable small firm sector which contains small operations serving a local market effectively and which consists of firms generating family sized profits (153)."

From the above discussion we can conclude that for some types of small business, particularly the independent manufacturing business, entry can be very difficult; while in other types, particularly the small retail business, entry is relatively easy. The small retail entrepreneurs problem, however, is very serious in the subsequent stage, namely that of survival. It is interesting to note that Chinese and indigenous businessmen may lack the capability to build lasting enterprises. This is primarily due to their inability to institutionalize their organization. Geertz writes that indigenous entrepreneurs are entrepreneurs without enterprises (154) and Furnivall writes that Chinese business usually collapses when its founder dies (155).

On the basis of their study among small firms in retailing and services, Mayer and Goldstein write that there are several factors which they consider have fatal effects on business survival, namely undercapitalization, managerial incompetence, and personality defects (156). With regard to the psychological aspect, Mayer and Goldstein write that motivation, hard work, persistence, and flexibility are supplementary factors. And also there are factors whose presence is highly desirable but whose absence is not necessarily fatal. In this category belong such features as a favourable location, good record-keeping, good housekeeping, and advance planning for opening and developing the business (157).

Those factors analysed by Mayer and Goldstein can be classified as bearing more on the internal aspect of a small business enterprise. Dawson and Kirby write that the reasons for the failure of small stores can be classified into evolutionary causes and radical or disruptive causes. Into

the first category fall causes closely associated with evolutionary trends of society. The second category is that of revolutionary change, or as they call it the "big bang" of Schumpeter. Periodically in any industry a new idea has a radical and even disruptive effect, such as the concepts of self-service and subsequently of the supermarket (158). Those factors mentioned by Dawson and Kirby can be classified as bearing more on the external aspect of a small business enterprise.

A further analysis reveals that a very damaging external factor causing the decline and closure of the small retail business is the unequal struggle between the small and the giant firms. A study by Palamountain in United States expounds this problems, and he concludes as follows:

"If the trades I have examined are well chosen, this study shows that distribution's basic conflict in this period was one between large-scale organization and small, between new methods of organizing marketing and old...The course and outcome of this battle have revealed much of the intricate interweaving of politics and economics...(159)."

It is very unfortunate for the small businesses that there is no clear line in the economic world neatly dividing the territory of the small business from that of the large. In some part of their activities, however, the small and the large business have similar concerns which put them in a zero-sum game, wherein one has to win and the other has to lose. The failure of small business is a widespread phenomenon. Findings on the seriousness of this problem have been reported by many writers, such as Bolton (160), Dawson (161) and Kirby (162) in the United Kingdom and Mayer and Goldstein (163), Solomon and Whiting (164) in the United States. Dawson writes that in Britain shops operated by small business have been closing at a net rate of approximately 30 per day since 1960. In the 1970's the rate was 45 per day (165). Solomon and Whiting write as follows about small business failures in the USA:

"These failures...represent more than a great material loss to individuals and the nation. They also represent an upheaval in the lives of the families of both the owners and their employees - and all too often the scars are permanent. Most people starting a new business are sincere and dedicated. Usually they bring a special art or skill with them, and willingness to work long hours. Yet in two years, half of all these new businesses will be down the drain (166)."

Harper finds that the failure rates of small general shops in Kenya were very high in the second and third years (167).

The exact figures of small business closures in Indonesia are not known. With regard to unsuccessful ventures in the Third World, Jorgensen et al. write as follows:

"Because limited opportunity to liquidate assets raises the barriers to exit, unsuccessful ventures are shelved rather than liquidated. They can be reactivated if market conditions change. Such risk minimization impairs efficiency, and may overextend the managerial capacity of the entrepreneur (168)."

From the foregoing we can conclude that small business failures in aggregate is a very worrying phenomenon. In the Third World the limited opportunity to liquidate assets increases the problem of the small business concern. A further analysis of the seriousness of the mortality in small business can be made by examining the failure rates among small businesses. This quantitative data will help to explain the size of the problem.

The failure rates reported in several studies differ, and it is impossible to cite one definite failure rate, since definitions of success and failure vary (169). Mortality rates vary widely in different lines of trade (170) and industry (171). Retailing and in particular small retailing is one of the highest (172). These failure rates may vary from one year to another (173). The best indicator for this variation is economic fluctuation (174). A compilation of failure rate figures reported by several writers is given in Table I.9. Business Failure and Exit Rates. Shapero and Giglierano's figures are exit rates instead of failures. There are exits without failures, such as merger, and closure without failure e.g. owing to boredom, old age, or turn the business to someone else. From this table we can draw a hypothetical life expectancy curve for small business as presented in Figure I.4. Life Expectancy Curve. This figure shows a steep drop in the number of small businesses able to survive in the first and second years of operation. According to Mayer and Goldstein, the first two years are the most critical period determining the survival chances of small business firms (175). The emergence of very large companies, which has intensified the process of economic concentration and has contributed to the decline of small firms has been reported in the United Kingdom (176). The problem of market monopoly and oligopoly is also reported in Indonesia (177).

Literatures on linkage systems indicate that the foregoing problems of small businesses are greatly overcome in various types of vertical linkage systems, such as in franchising (178) and subcontracting (179). This benefit, however, has to be paid for by some sacrifices on the part of the small business, in particular of the full freedom which they otherwise enjoyed. This latter aspect is discussed elsewhere.

TABLE I.9

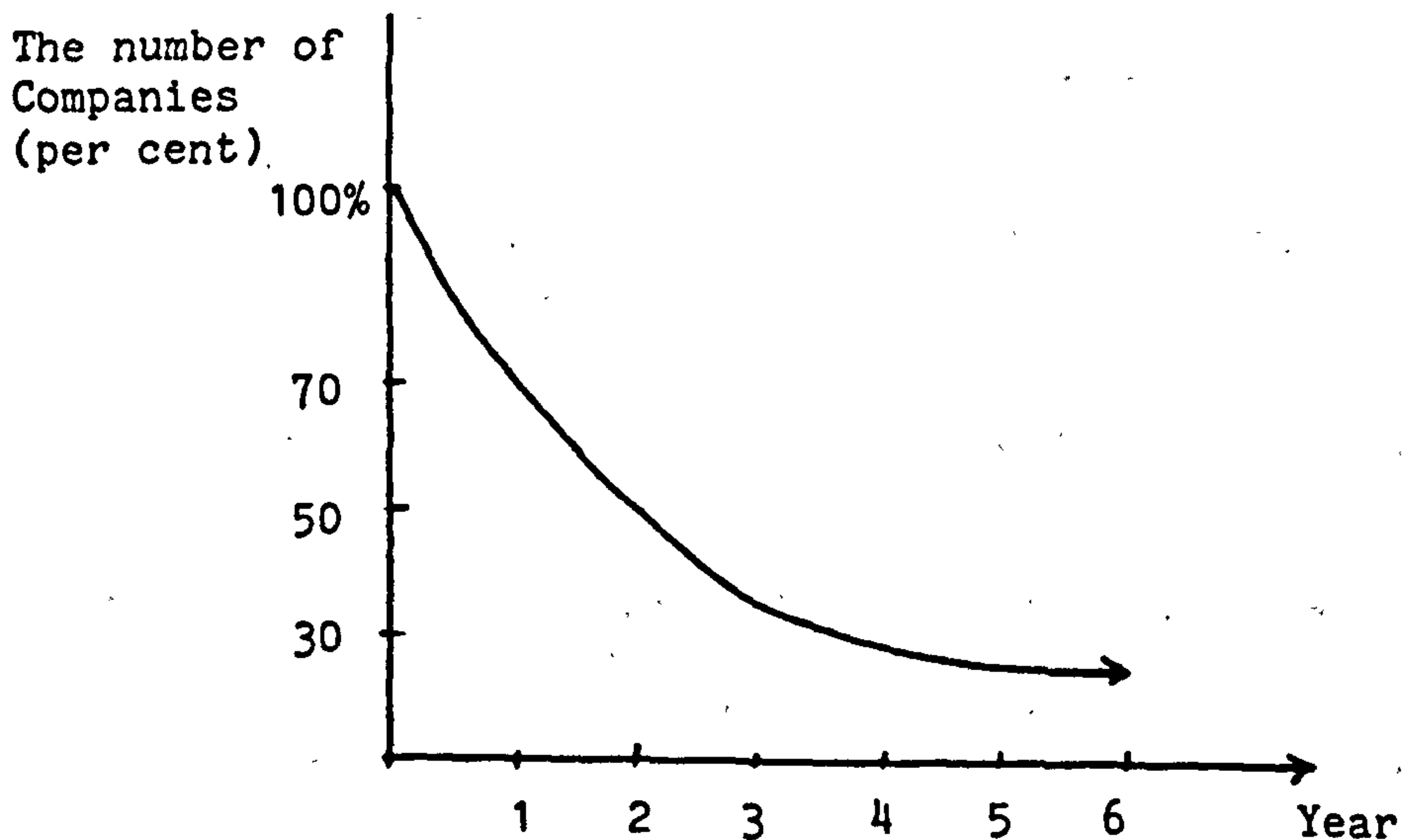
BUSINESS FAILURE/EXIT RATES
(per cent of Failure/Exit)

Source	Dawson	Izraeli	Mayer & Goldstein	Timmons	Shapero & Giglierano
Type of Business	New Firms in Retailing	All-retail	Retail & Service	New Firms	Business Consultants
Place	UK	USA	USA	USA	USA
Year 1	NA	38	40	33,3	27,7
2	53.2	57	49	50	45,5
3	NA	67	NA	66,6	53,0
4	NA	73	NA	NA	58,0
5	NA	77	NA	80	58,8
10	NA	84	NA	NA	65,5

Notes Source: (1983,p.3) (1972, p.24) (1961, p.57) (1977, p.10) (1982, p.125)

- NA = Data not available.
- In calculating the percentage the base is total firm in year 0.

FIGURE I.4

LIFE EXPECTANCY CURVE

F. THE SMALL BUSINESS PROMOTION PROGRAMMES

Knowing the importance of the small businesses' role, and in particular those small businesses in the trade sector, also the problems that small businesses are facing, what has the government done? With regard to the involvement of government in promoting small business Neck writes as follows:

"...for the most part, it has been only during the past two decades that fully comprehensive programmes, designate to promote small enterprise development as part of national development plans, have taken place. While the problems of small-enterprise development undoubtedly receive most attention in countries with market economies, this concern for the sector is also shared by countries where economic development is centrally planned. Furthermore, concern for the sector is often based on quite dissimilar grounds.

On the one hand, the basis for support may be the perceived need to stem the decline of the sector as noticed in Western Europe. On the other hand, such support may be to promote economic and social development, particularly in developing countries (180)."

As has been mentioned above by Neck, the basis for government support for small business varies according to the economic system adopted and the problems faced by a particular country. The following list compares some of the bases which influence the scope and the depth of government support for small businesses in several countries:

1. United Kingdom (181).
 - (1) Small business creates many jobs.
 - (2) A reaction to the low birth rate of new firms.
 - (3) High unemployment (182).
2. United States of America (183).

To preserve free competitive enterprise.
3. Japan (184).
 - (1) To improve productivity of small firms.
 - (2) To narrow the gaps among enterprises
4. Indonesia (185).

To correct economic inequality between the indigenous and non-indigenous.

The type and assistance, and the organizing of government support for small businesses differ considerably among the countries mentioned above. Within these countries there are also some differences as to the type of assistance given to various industries, and community groups. A list of various government programmes for protecting or stimulating small-scale retailing has been written by Dawson, and is quoted here as being representative of various alternatives of

government programme in the developed countries (186).

TYPES OF GOVERNMENT PROGRAMMES TO PROTECT OR STIMULATE SMALL SCALE RETAILING:

1. Direct intervention in the market
 - (1) direct financial subsidy to offset operational costs.
 - (2) control of competition and investment by large firms.
 - (3) control of buyer-seller relationships in channel transactions.

2. Positive discrimination in existing policy to encourage self-help
 - (4) provision of low interest capital loans.
 - (5) provision of tax and other incentives to encourage collaborative activities.
 - (6) design and development of urban renewal schemes which favour small scale retailers.
 - (7) provide compensation payments for older operators to leave business.
 - (8) provide payments for social services provided by independent retailers.

3. Advice and information provision
 - (9) encourage training in retail and financial management for independent traders.
 - (10) encourage entry by qualified entrepreneurs, discourage entry by the unqualified.
 - (11) provide an information service and management guidance directly relevant to small scale retailing.
 - (12) provide examples of how new technology or alternative trading approaches can be used to advantage.

As has been mentioned earlier, at this period Indonesia faces growth, equity, and stability problems. According to Salim (187) and Suryadinata (188) Indonesian economic growth has produced a widening gap between the traditional and the modern sector, the poor and the rich, the urban and the rural, the indigenous and the non-indigenous. With regard to what the Indonesian government has done and its plans for coping with this dualistic phenomenon, and within the much wider programme for coping with many complex problems, Salim mentions the following types of government programme for the indigenous entrepreneurs (189). First, the government provides specific facilities aimed at assisting indigenous entrepreneurs. Second, government procurements give preferences to these indigenous entrepreneurs. Third, various credit schemes have been devised. Fourth, a system of linkages between strong and weak entrepreneurs has been devised.

It is interesting to note that there are similarities between what the Indonesian government has done and what developed countries have created in their programmes to assist the small-business sectors. The principal differences

between Indonesia and other more developed countries is that inequality or majority-minority phenomenon, as has been mentioned earlier, affects many small business promotion programmes and in particular of the government. Another aspect where Indonesia differs from the other countries mentioned earlier is the degree of government intervention in or commitment to the various programmes.

This study will basically concentrate on the fourth type of programme mentioned by Salim, namely the development of small business entrepreneurs in a system of linkages between the large and the small firms. A comparison of what has been done in this field in developed countries and in Indonesia will help to broaden the alternatives and improve the efficiency and effectiveness of this linkage system programme. The comparison can be broadly categorized into two parts, first the government's role in this linkage system, and secondly that of large enterprises. With regard to the government's role, we can classify it into two general categories: firstly, a direct interventionist role, such as the active role of state enterprises in order to perform the duties of parent firms. Secondly, indirect aid, namely providing advice, information, and guidance as requested. The Indonesian government, to a certain extent, chooses the first approach. In the next section, some of the large enterprises' programme for linkage with small businesses will be investigated.

Almost every country has started to assist already-existing small businesses and to make it easier for people to start new enterprises (190). Many types of programmes have been designed by governments or private organizations to assist small businesses. The programmes vary greatly, and they can be classified in many dimensions, for instance in terms of duration, purpose, scope and type of assistance, area of business promoted, type of sponsors, and coverage of operation. Some programmes are of very limited in terms of duration, purpose, and type of activity, for instance the various training programmes offered by universities and voluntary organizations, while other programmes are very large scale, for instance the various types of small business loan programmes offered by governments, e.g. the KIK and KMKP programmes in Indonesia, the regular business loan programme and the Economic Opportunity loan programme by the Small Business Administration in the United States, and the loans for indigenous entrepreneurs by MARA in Malaysia. Some programmes offer great involvement from the sponsor in the operation of the small business, for instance the equity participation and other related services provided by P.T. Bahana in Indonesia, the VIBES (Ventures in Industry and Business Enterprises) in the Philippines, and various venture-firms in the United States.

The variety of programmes currently in operation both in LDCs and industrialized countries are too numerous to mention. It has been reported that there is a need to have a

coordinative body, in order to achieve greater efficiency and effectiveness among the various fragmented programmes in this field, for instance in Central Java (191). The number and types of services offered in a given place can be so numerous as to result in duplication and inefficient use of resources, as well as confusion among the potential beneficiaries (192). Also, some programmes are quite limited in scope, for instance the training programmes or technical consulting services, so that their effectiveness in overcoming the complex problems faced by the small business participating in programmes of this type is very much in doubt. With regard to small business retailing Harper writes "individual extension is a most suitable form of training for small general shopkeepers. It is very widely recommended, both for small business in general and for retailers in particular, but it has rarely been implemented (193)." For fledgling entrepreneurs a well-managed training programme may lack effectiveness owing to the lack of 'after care' service.

A vertical linkage system can provide a comprehensive and integrated assistance package. Franchising, for instance, offers pre-business and continuing services. The long term nature of the relationship in this linkage system demands full support from the large enterprise. The following is the list of some important training and assistance schemes which may be provided by the large firm in a VMS. This list is based on the franchise type of VMS operation (194).

1. In starting a new business, the franchisor usually provides experience gained from having successfully started other businesses. The franchisor usually provides the inexperienced franchisee with on-the-job and classroom training.
2. The franchisee's employees are trained by the franchisor.
3. The franchisor is a continuing source of know-how to the franchisee.
4. The franchisor usually brings the retail unit an accepted trade-name and reputation, which not only attracts customers but also provides the unit with a niche in the community.
5. Under the franchise "umbrella" the franchisee can usually get easier access to credit. In the West, with the entry of the banks into franchise financing, the franchisee will have access to lending sources and terms which would not otherwise be available.
6. The franchisee invariably requires to commit less of his own capital than is required in setting-up independently, by reason of the assistance given by the franchisor in obtaining finance. Moreover, the capital required is likely to be more effectively deployed under the

franchisor's guidance than it would be in a trial-and-error first venture.

7. The franchisee receives the benefit of the national or international franchisor's continuous marketing operation, for instance the franchisor's advertising and promotional activities, bulk in purchasing and in negotiating as well as research and development programmes designed to improve the business and keep it up-to-date, and also market information.
8. The franchisee has the services of trouble-shooters or field operational staff provided by the franchisor to assist him with the many problems which may arise from time to time in the course of business. In other words, the franchisee has access to the specialized and highly skilled knowledge and experience of the franchisor's head office organization in all aspects of his business.

From the above list of training and assistance schemes and other advantages we may conclude that a VMS may provide a total package of starting and doing business which can hardly be provided by many other forms of small business training and development programmes. Among the VMSs there are, however, some variations in the complexity of training and assistance provided. On the other side, a vertical linkage system has some disadvantages, e.g. dependence, which will be described elsewhere in this study.

G. VERTICAL RELATIONSHIPS BETWEEN LARGE AND SMALL ENTERPRISES.

In this section, before we investigate the experience of several countries in vertical linkage systems, we will first investigate the Indonesian government policies on this issue. With regard to the Indonesian government's view and programme on the system of linkages between large and small enterprises, Salim writes as follows:

"Basically, the idea is that the strong are obligated to train and develop the weak. A division of labour is established between the two, and the strong are held responsible for pushing the weak. In plantation projects, the system has become part of a scheme of "nucleus estate small-holders' development projects", in which state-owned estates act as a nucleus surrounded by a "plasma" of smallholders responsible for growing the raw materials required by the nucleus which provides supervision and guidance. In industry, established factories are assigned small enterprises as "adopted sons". With the help of government incentives, both parties are expected to go hand-in-hand towards progress. In addition, "mini industrial estates" are being constructed in strategic areas in the region, in order to put several small industries under one roof, so to speak, to facilitate the provision of guidance and technical and capital assistance to them.

In most cases, the biggest problem is how to reach the weak and small entrepreneurs who are usually not properly organized as legitimate enterprises. Through the "adopted son" and "mini industrial estate" approaches, it is hoped that the weak entrepreneurs can finally be reached, opening the way for government assistance (195)."

Since Emil Salim is not only an academician but also a government minister, the above statement has deep implication for the Indonesian linkage system. There are several points which need to be noted for this study, namely as follows:

1. The Indonesian government is very much committed to the idea that linkage systems will benefit the small entrepreneurs.
2. At the present stage, linkage systems are being concentrated into two types of economic sector, namely industry and plantations. In the trade sector no linkage system is mentioned.
3. The government consider the large firms to be under an obligation to help the small ones. In this linkage system the large firm assumes a parental role.

Following the above analysis, three questions are significant for this study. Firstly, why was not the trade sector the first area to be chosen as the place for developing a linkage system? Secondly, what economic benefits can be expected if the large firms assume a parental role? Thirdly, is there any assumption that in this linkage system the dependency of the small firms is permanent? This study will touch on those three questions. The purpose of this study, however, is not to explain government policy, but to provide some empirical evidence and analysis both from Indonesia and from other countries. In brief, this study will analyse the empirical evidence of some linkage systems in the trade sector in Indonesia. It is hoped that the theory and the evidence presented in this study will contribute to the formation of a more balanced and realistic appraisal of vertical relation systems. The backward linkage system such as has been developed in Japan and India has been briefly discussed earlier. This study focuses on the forward linkage system in the distribution network.

In theory, as mentioned by Cristopher et al. (196), integration in the distribution network has two dimensions, namely:

1. Horizontal integration, in which two or more separate enterprises at the same stage combine. The following are the reasons for it:
 - To expand the product line
 - To sell through more outlets

- To achieve procurement economies
- To achieve greater channel power

2. Vertical integration, in which at one stage, a member takes over the operations or functions of another stage. The following are the reasons for it:

- To reduce costs and therefore offer lower prices
- To stabilize activities and performance (often combined with diversification)
- To provide secure sources of supply
- To provide better control over operations at lower levels of the channel.

Vertical relationship systems in developed countries take many forms. In brief, the relationship pattern between large and small enterprises can be broken-down into four main aspects, namely:

- (1) Formality of relationship
- (2) Scope of business activity covered
- (3) Duration
- (4) Power position of each party

In each of these aspects there are two opposite poles between which a pattern of relationship can exist. Basically, a pattern within a vertical system can be described in terms of the position of the relationship within each continuum between the two opposite poles mentioned above. Figure I.5 presents the four aspects and the two opposite poles in each aspect.

From Figure I.5, two types of extreme relationship can be constructed. Firstly, the highly-integrated relationship. These characteristics of pole I are a feature of this type of relationship. Secondly, an independent type of relationship. These characteristics of pole II are a feature of an independent relationship. In a highly integrated relationships there is an unequal power position between the large and the small enterprises. This study will concentrate in this type of relationship, and will analyse the experience of the parties participating in this relationship. On some critical points a comparison is made with the experience of those participating in an independent type of relationship.

FIGURE I. 5

SOME KEY ASPECTS IN BUSINESS RELATION AGREEMENT

<u>Aspects</u>	<u>Pole I</u>	<u>Pole II</u>
(1) Formality of Relationship	Formal Contract	Informal Agreement
(2) Scope of Business Activity Covered	Total Business	Limited to Specific Activity
(3) Duration	Unspecified or Unlimited	Specified and Strictly Limited
(4) Power Position of Each Party	Unequal in terms of:	Equal
	- Economy	
	- Technical Knowledge	
	- Business Knowledge	

Kono uses "vertical integration" as the term to describe a situation where the company in the main or key-process controls the company in the auxiliary but next-to-key process. The key-process holder has power over and can control the supplementary process company (197). The "nucleus" and "plasma" relationship developed in the plantation sector in Indonesia is similar to what Kono writes on the basis of Japan's vertical-relationship system. According to Kono, there are two methods of integration, namely consolidated integration and quasi-integration. The consolidated integration is basically the use of ownership power to control the next-to-key process, while the quasi-integration relies primarily on the unequal transaction between the key-process company and the integrated companies (198). This quasi-integration is widely used in Japan (199). The requirement for the success of quasi-vertical integration, however, is that the main process company has to operate on a large scale. This size factor is important because power is needed to coordinate integrated companies.

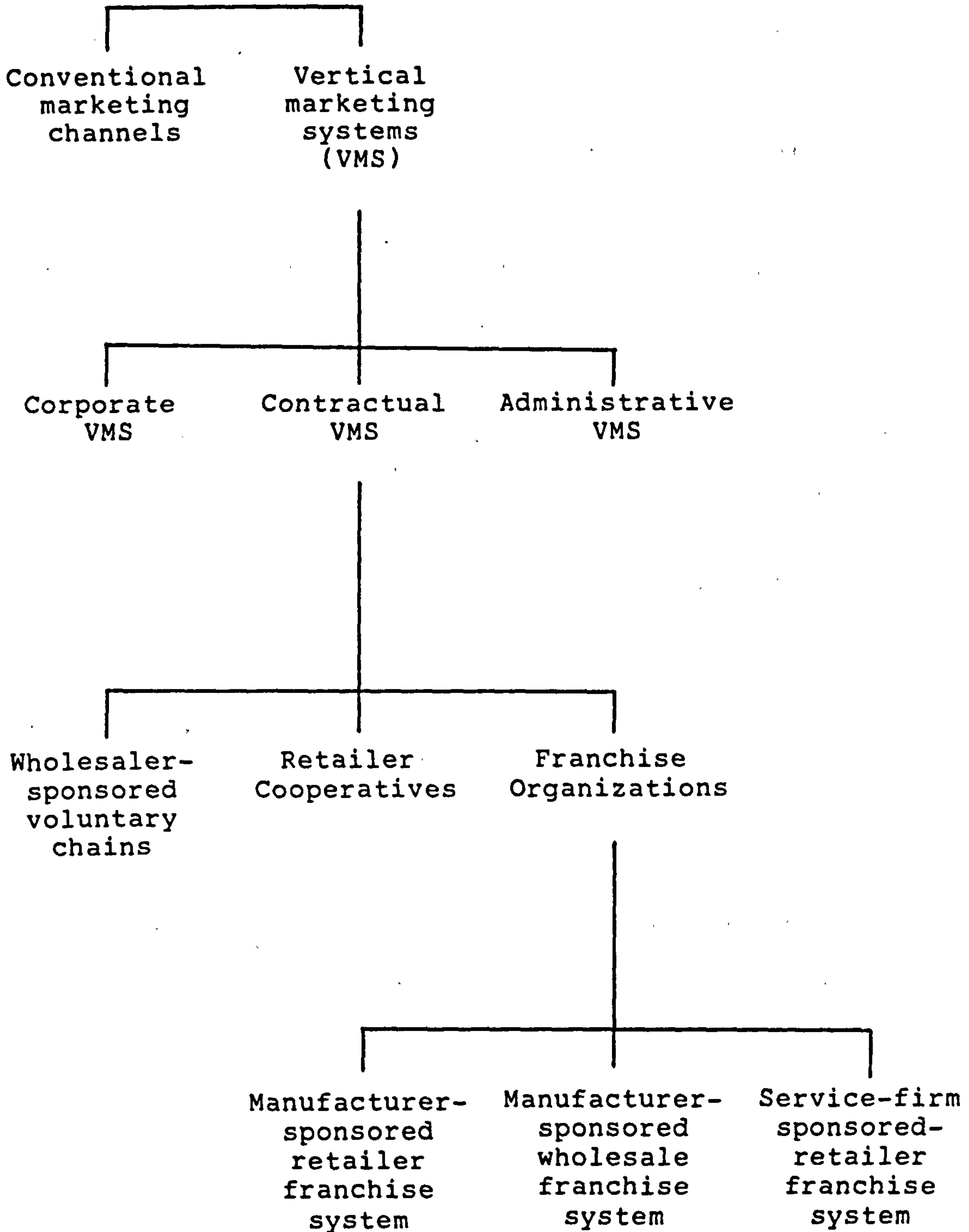
In western countries, particularly in the United States, a highly-integrated relationship system has been developed, namely franchising. Franchising is a form of vertical marketing system. The International Franchise Association defines franchise operation as follows:

"A franchise operation is a contractual relationship between the franchisor and franchisee in which the franchisor offers or is obliged to maintain a continuing interest in the business of the franchisee in such areas as know-how and training, wherein the franchisee operates under a common trade name, format, or procedure owned or controlled by the franchisor, and in which the franchisee has or will make a substantial capital investment in his business from his own resources (200)."

The real practice of franchising, however, depends on the agreement reached by franchisor and franchisee. Many aspects of the relationship are discussed or laid down by the franchisor, so that any franchise may have peculiarities of its own.

Vertical relationship can be classified into three types: (1) backward, (2) forward in the production process, (3) forward in the distribution process. Japanese firms are heavily involved in types (1) and (2), while franchising is in type (3). This study will concentrate on type (3), namely vertical relationships in trade activities. The various types of relationship between a company and its trade channel are schematically illustrated in Figure I.6. Types of Marketing Channels (201). A detailed description of each type of the relationship system is presented by Kotler in Principles of Marketing, 1980 and by Stern and El-Ansary in Marketing Channels, 1977. At the time of this study, the term franchise was not widely understood in Indonesia even among marketing executives. A further explanation of vertical marketing systems is presented in Chapter II.

FIGURE I. 6

TYPES OF MARKETING CHANNELS

Source: P. Kotler, Principles of Marketing, Prentice-Hall, Inc., Englewood Cliffs, N.J., 2nd. ed., 1983, p. 361.

H. THE PURPOSE OF THE STUDY

The purpose, limitations and type of this study have been loosely mentioned earlier in various parts of this chapter. In summary:

1. This research explores the experience of small business entrepreneurs operating under the influence of large enterprises.
2. The systems in which these entrepreneurs operate are vertical linkage systems in the distribution channel network.
3. These systems are relatively new marketing and business techniques in Indonesia.
4. Indonesia is a Third World country, in the lower-middle-income category, and in the process of modernizing.
5. Indonesia has its own socio-economic conditions which influence its modernization process, and one of them, the majority-minority phenomenon, colours the entrepreneurial development aspect.

To select the sample a broad definition of entrepreneur is used here, namely someone who owns and manages a business. A discussion of this entrepreneurial aspect is presented in Chapter IV. The small firms are retailers and/or wholesalers with at least three years experience of operating in close relationship with a large firm. The large firm are either manufacturers or else the main marketing organizations of manufacturing companies in Indonesia. The large firms are the main suppliers to these small firms. The trade-name of the large firms is the central identity used by the small enterprises in running their establishments.

From the research methods standpoint, the purpose of this research can be classified as a combination of exploratory and descriptive studies, not an experimental or hypothesis-testing type of research. Thus the research purposes are as follows (202):

1. To gain familiarity with a phenomenon.
2. To portray the characteristics of particular situations, groups, and individuals.
3. To determine the frequency with which something occurs or with which it is associated with something else.

This study will cover two broad aspects, first, the vertical marketing systems (VMSs for short); second, the entrepreneurial aspect of small business entrepreneurs (SBEs for short). Within each aspect, several sub-aspects are

investigated. A sub-aspect can consist of one or more variables. A variable is an empirically applicable concept that takes on two or more values (203). In other words, a variable is a symbol to which numerals or values are assigned (204). In this study most of the values are either nominal or ordinal. Some of the variables in VMS will be correlated with those in SBE to answer the research questions. The following are the sub-aspects investigated:

1. The Vertical marketing systems
 - (1) Degree of dependence
 - (2) Scope and usefulness of supplier's assistance
 - (3) Basis of relationship
 - (4) Satisfaction of relationship
 - (5) SBE's perception of supplier's power
2. The entrepreneurial aspect of small business
 - (1) Ownership and control
 - (2) Attitude to business expansion
 - (3) Attitude to business resources utilization, i.e. management of man, money, and so on.
 - (4) Attitude to independence
 - (5) Personal background, e.g. business experience
 - (6) Family and ethnic background

As has been mentioned earlier, in this study a group of small business entrepreneurs in a relatively independent relationship with a large firm is analysed, in order to clarify some of the critical issues, such as the measurement of the degree of independence.

The research findings at this stage of analysis will familiarize us with the characteristics of the VMSs and SBEs investigated. These findings will mostly be presented in the form of frequencies and/or percentages. The next purpose of this study is to investigate some issues related to the Indonesian problems as mentioned earlier, and in detail will be presented in the form of research questions in due course.

Before the main research questions are presented, a brief description of the units of analysis is presented. The units of analysis, the subject-matter of this study, are two, namely the vertical marketing system and the small business entrepreneurs. The names of the units are disguised, in order to protect respondents' identity. There are five VMS's analysed with seventy-seven small business entrepreneurs in them explored. The products sold through the units are basically consumer goods. Only a small percentage are sold to the industrial market. A further description of the products is as follows:

- All of the product belongs to the durable or semi-durable category (205) and also shopping goods category (206).
- The products are sold under brand-names which are

considered the leader in their own classes.

- The products are in a competitive market which means that a considerable amount of marketing effort is needed in order to sell them.

A list of the main characteristics of the marketing mix of the VMSs is presented in Table I.10, Main Characteristics of The Vertical Marketing Systems Studied. The breakdown of the number of small business entrepreneurs within each VMS is presented in Table I.11, Small Business Entrepreneurs' Sample Size. As has been mentioned earlier, a group of independent entrepreneurs is included in this study as a control group. This group sell products from the same supplier as the VMSs, but these are usually more limited in type, and they carry other suppliers' products as well. Twenty-one independent entrepreneurs are analysed.

The main research questions can be classified into two broad areas, first VMS as a way to business careers, and secondly the independent and the dependent types of entrepreneurs in VMS. The following are the details of the research questions:

1. VMS as a way to business careers.

- (1) Do VMS serve as a way of entering the business community for those who do not have a business background?
- (2) Do those who do not have a business background before joining VMS feel that they have been turned into businessmen by the supplier?
- (3) Do those who do not have any previous business experience perform well as business traders?
- (4) - (9) The same questions as point (1) up to (3) but for the following group of small business entrepreneurs:
 - Those whose fathers are not businessmen
 - Those who are indigenous Indonesians.
- (10) The suppliers assume the leadership of the VMS, and in order to coordinate the small business entrepreneurs a degree of control is imposed upon these SBEs. Each VMS has its own degree of control, and for this study nineteen variables have been used for measuring the level of control. On the basis of the degree of control, which VMS have more SBEs without any business background prior joining the VMS? Is it the VMS with a high level of control, or those with the lowest?
- (11) - (12) The same question as point (10) but for these groups:
 - Those whose fathers are not businessmen
 - Those who are indigenous Indonesians.

TABLE I.10

MAIN CHARACTERISTICS OF THE VERTICAL MARKETING SYSTEMS STUDIED
(THE MARKETING MIX)

VERTICAL MARKETING SYSTEM-IDENTIFICATION	MAIN USER	PRODUCT* LIFE-SPAN USAGE	LENGTH & DEPTH OF PRODUCT-MIX PROVIDED BY SUPPLIER	PRICE AS COMPARED WITH CONSUMER INCOME	MAIN ACTIVITY**	MAIN BUYER'S METHOD OF PAYMENT**	SUPPLIER'S ADVERTISING & SALES PROMOTION	** PERSONAL SELLING EFFORT	SUPPLIER'S SALES TERRITORY PROTECTION
VMS - I	All, for personal use	Semi-Durable	Full Range	Low	Retailing	Cash	Strong	Moderate	Low
VMS - II	All, for personal use	Semi-Durable	Moderate	Low	Wholesaling	Credit	Moderate	Strong	High
VMS - III	All, for personal use	Semi-Durable	Limited	Low	Retailing	Cash	Weak	Moderate	Low
VMS - IV	Adult-men	Durable	Full Range	Very High	Wholesaling and/or Retailing	Credit & Cash	Strong	Strong	Many high and few moderate
VMS - V	Adult-women	Durable	Limited	High	Retailing	Credit	Moderate	Strong	Many high and few moderate

Notes: * PRODUCT DURABILITY CLASSIFICATION: (1) Perishable, less than 6 months; (2) Semi-Durable, 6 months - 3 years; (3) Durable, more than 3 years.

See A. Wilson, The Marketing of Professional Services, McGraw Hill Book Company, London, 1972, pp. 6-10.

** The characteristics of the distributor's business activity, i.e. the small business establishment.

TABLE I.11SMALL-BUSINESS ENTREPRENEURS' SAMPLE SIZE

CHANNEL TYPE	NUMBER INTERVIEWED	TOTAL * POPULATION, ESTIMATE	USEABLE CASES
VMS - I	31	217	22
VMS - II	16	30	12
VMS - III	17	250	14
VMS - IV	15	75	15
VMS - V	25	39	14
INDEPENDENT	23	unknown	21
TOTAL	127	-	98

Note: * The total population figures include those establishments which have been in operation less than three years. The number of establishments which have been in operation more than three years is not known.

2. The independent- and the dependent- type of entrepreneurs in VMS:

We can categorize entrepreneurs on the basis of their independence of behaviour. One of the indicators for measuring independent behaviour is the activity of the entrepreneur outside the establishment. Those who have other income, and particularly those who have other business activities, are regarded as more independent. Although many other SBEs (+ 44.8%) may depend largely or completely on one supplier, these 'independent' entrepreneurs are reluctant to depend solely on a single business which is under considerable control from a supplier. Are those who have this independent behaviour satisfied with being in the VMS? How does this group's satisfactions with the VMS, compare with that of those who have dependent behaviour? With these analyses we hope to demonstrate whether VMS is or is not a place for independent entrepreneurs.

It is hoped that with the above-mentioned analyses some critical questions regarding whether VMS is a way for developing entrepreneurs, particularly for those who have little chance of entering the business community successfully on their own (such as the Javanese in Indonesia) can be clarified. Also, the question with regard to the independent and dependent behaviour of small business entrepreneurs within VMS can be answered. VMSs, however, are not a complete solution to the complex dualism problems in Indonesia. But they offer, as promised in the literature (207), a great many benefits to small and large firms, consumers, and society.

I. RESEARCH STRATEGY

As has been mentioned earlier, there are two units of analysis, namely (1) the VMS and (2) the SBE. To obtain data for this study, three distinct groups of samples have been investigated, i.e. (1) the suppliers, (2) the small business entrepreneurs within VMS, and (3) small business entrepreneurs within an independent relationship system. The following criteria have been used to select suppliers implementing vertical marketing systems:

1. There is a written agreement between the supplier and the small distributor in the system.
2. The supplier's trade name dominates the small firm's business operation. This can be identified from the shop-sign, point-of-sales promotion, shop display, invoices form, and name card.
3. There is supplier influence over the small business' planning, particularly with regard to the volume of the supplier's products sold. The small firm is not free to plan the quantity of the products to be sold in his establishment.
4. There is some supplier-control over the small business' activities. A periodic report is requested, and the supplier's representatives, one of their primary tasks is to monitor and advise on the operation of the shop, visit the small firm's shop.
5. The vertical relationship system has been in operation for at least three years. This time-criterion will be explained in due course.

The small-business respondents under the VMSs have to meet the following criteria:

1. He or she is the owner and top-manager of the establishment, as has been formally recognized by the supplier. A list of firms and their owner-managers is provided by the supplier for each type of channel in the

distribution system. It is from this list that a random sampling, if the total population is large, or a 100-per cent sampling, if the total population is small, is made. (The latest figures of the total population and the time of these SBEs joined the VMSs, however, are very difficult to obtain owing to the administrative system currently in use.)

2. He or she has been at least three years in the position as owner-manager in the VMS being studied.
3. The supplier's trade-name is clearly visible in the establishment, and inside the store there is an atmosphere like that of the supplier's channel members.

In some aspects, e.g. in terms of sales volume, some of the SBEs, might be categorized as medium-sized business owner-managers, but they have been included in the sample because they started as SBEs when they joined the VMSs studied.

The small business under the independent system meets the following criteria:

1. The owner is the manager of the establishment.
2. There is full freedom to decide the quantity of the supplier's product to be sold in the establishment. In other words, there is no sales quota imposed by the supplier upon him or her.

The time-criterion 'three-years' has been chosen in this study for selecting both the VMSs and the SBEs, for the following reasons:

1. This time-criterion will provide adequate grounds for an assessment of the relationships of the parties concerned.
2. The small firms have had the opportunity to collect funds for additional investment, if the entrepreneur so wishes. It is assumed that an independent entrepreneur tends to invest in other more independent ventures. In this research "other income" is used as an indicator of whether the small firm has independent behaviour.
3. After the business has been in operation for three years there is a high probability that a SBE will continue in this career. As has been mentioned earlier, according to Mayer and Goldstein the first two years are the most crucial period for an SBEs' survival. In Figure I.4, Life Expectancy Curve, this assumption is clarified.

The cut-off time 'three-years' has been arbitrarily chosen by the author, in the hope of increasing the "quality" of the responses and at the same time of having enough respondents to choose from. Most of the unused cases, about 70 per cent, have been rejected because of not meeting this

three-years criterion. What is meant by a good quality of response is a response that is based on adequate experience of the relationship.

This research has used the owner-manager and one of his or her establishments as a unit of analysis or a case. An establishment is a reporting unit, and a firm or an enterprise or an owner may have one or more establishments. There was no respondent interviewed twice because of having more than one business establishment.

The data-gathering activities can be separated into three major steps, and for each step a questionnaire has been developed. The three types of questionnaire which have been used are briefly explained as follows:

1. Questionnaire A.

Questionnaire A helps to identify the degree of relationship between the supplier and the channel member in each distribution system. It is designed primarily to help the interviewer to assess whether the large firm has a VMS which can be further researched. The same type of questions have been incorporated into questionnaire B. This incorporation will serve not only as a check from the small firms' point of view, but also as a tool for measuring the degree of the supplier's influence and the usefulness of the supplier's activities. A sample of questionnaire A is at Appendix B.

2. Questionnaire B.

Questionnaire B helps to identify the small-business entrepreneur's background, his or her entrepreneurial attitudes and behaviour, and his or her opinion as to the relationship with the main supplier. A sample of questionnaire B is in Appendix C.

3. Questionnaire C.

Questionnaire C helps to investigate the supplier's evaluation of each small business chosen as a respondent. The supplier is asked to evaluate the small-business entrepreneur's performance, the small-business entrepreneurial attitudes and behaviour, and also what is the supplier's preference-level for working with each small business, and the supplier's estimate about small business' monthly sales revenue. A sample of questionnaire C is at Appendix D.

The major steps in this research are as follows:

1. The identification of VMS and the preparation for small business survey.

An in-depth discussion with the supplier reveals the presence or absence of a VMS. By using questionnaire A

the pattern of the VMS can be identified. A list of channel members is obtained. A random sampling is made for VMS I, III, and IV because the total population is big enough in each of these VMS. In VMS II and V, however, a 100-per cent sampling is carried out. A detailed description of the total population and the number of samples interviewed in each VMS is presented in Table I.11, Small Business Entrepreneurs' Sample Size, in the previous section.

An arrangement is made with the supplier in order to obtain co-operation from the small firms. Many small firms are suspicious as to whether the interviewer is a disguised tax-officer. Some of the suppliers contacted their distributors before the interviewers visited them.

2. The small-business survey.

Most of the small-business entrepreneurs were interviewed by means of standard questionnaire B. Those who cannot be interviewed personally are sent the same questionnaire by mail. There are five cases which have been obtained by mail. On average, the interviews last for two-hours. In order to help the respondents to answer some questions, particularly those which ask the respondents to choose between various answers provided, prompt-cards are provided. Nineteen respondents were re-interviewed at length in order to clarify some of the points raised during the first interview and/or to eradicate some inconsistencies in the answers.

3. Supplier's evaluation.

At the final stage of the data-gathering process, each supplier is requested to evaluate each member of his channel participating in the research. At least two executives representing the supplier are asked to fill-in questionnaire-C for each channel member. One of the executives is the senior marketing executive responsible for the marketing of a particular group of products at national level, and the other executive is the field-supervisor most frequently in contact with the small business. These field-supervisors play an important part in bridging the gap between the large and the small firms. Harper mentions the role of the sales representatives of a shoe company in East Africa who not only sell their products but also act as business consultants for the small firms (208). Eleven field-supervisors have been interviewed for this study, and a less structured interview was used for obtaining information from these respondents.

The data-analysis approach of this study is discussed in the Appendix E. In the next chapter the VMSs studied will be described and analysed.

CHAPTER II VERTICAL MARKETING SYSTEMS: THEORY AND PRACTICE

A. INTRODUCTION

There may be a network of institutions between producers and consumers through which the product must move. Combinations of institutions specializing in manufacturing, wholesaling, retailing and many other areas join forces in marketing channel arrangements, so as to make possible the delivery of goods to industrial users or customers and to the ultimate consumers. Christopher et al. define distribution at the firm level as follows:

"Distribution is that management activity of the firm concerned with the provision of availability. It provides the means whereby the right product is delivered to the right place at the right time, in other words it adds time and place utility to the value of the good or service (1)."

The delivery of a product or service is carried out through channels of distribution. Channels of distribution have been variously defined (2):

- (a) in terms of a pipeline for goods from manufacturers to consumers.
- (b) as a combination of agencies between manufacturer and user.
- (c) as intermediary sellers between original source of supply and ultimate consumer.

The definition of marketing channels in the literature has been reviewed by Childerley, and she writes that narrow definitions restrict channel activities to those directly related to the transfer of title and include as channel members only, units which actually take title. Broad definitions cover the transfer of title, physical distribution, and the facilitating functions, and hence include agencies that take neither title nor physical possession (3). In this study, marketing channels are defined as sets of interdependent organizations involved in the process of making a product or service available for use or consumption (4). Stern and El-Ansary write that the function of marketing channels is not only to satisfy demand by supplying goods and services in the right place, quantity, quality, and price, but that they also stimulate demand through the promotional activities of the units comprising them. The usefulness of the middleman to the producers should also be added. The entrepreneurial aggressiveness of the middleman not only means a better fulfilment of demand but also opens the door to expansion in production (5).

Manufacturers, wholesalers, and retailers, as well as other channel members, exist in channel arrangements to perform certain functions. Figure II.1 depicts eight universal flows of functions (6). Physical possession, ownership, and promotion are typically forward flows from producer to consumer. Each of these moves "down" the distribution channel - a manufacturer promotes the sale of his product to a wholesaler, who in turn promotes its sale to a retailer, and so on. The negotiation, financing, and risking flows move in both directions, while ordering and payment are backward flows.

According to Bucklin and Stasch (7) the concept of a vertical marketing system emerges from the observation that most goods and many services pass through two or more markets before ultimate consumption. In advanced societies the division of labour, or specialisation, is such that there are many organizations involved in the production and distribution of mass consumer goods (8). Jorgensen et al. write that in LDCs there is a lack of inter-industry linkages within the domestic economy. The environmental support system is lean; resources are not available in the needed form, or are available only sporadically. Consequently, organizations must be highly self-contained. They must internalize many services which organizations in industrial countries routinely obtain through the market (9).

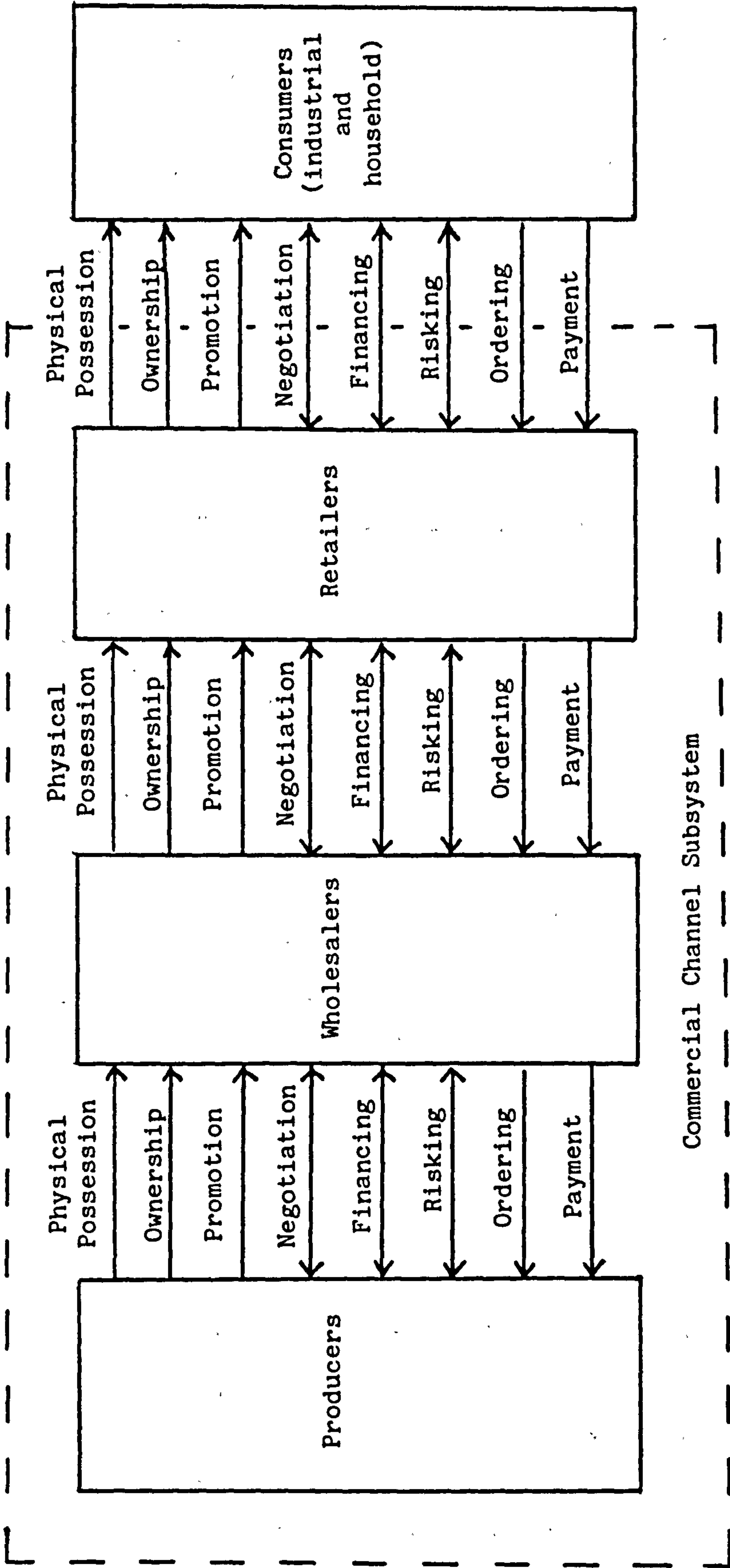
In the simplest economies, and to some extent in the very advanced (e.g. professional services and custom-made products in developed countries), the gaps between the process of production and consumption are very small and easily bridged by the producer or consumer himself. With higher levels of economic development and a shift from an agrarian economy to one of partial industrialization, the distance between producer and user widens (10). For that reason, therefore, vertical marketing system has not been widely adopted in LDCs, especially in the traditional sector. A vertically integrated system is not, however, impossible. The Dutch companies prior to Indonesian independence, and the Sears Roebuck operations in several countries of Latin America (11) are examples of such vertical integration. Slater argues that vertical market coordination is a critically important contribution to modernization of the marketing processes of a developing community (12).

A distribution system is very much influenced by its environment. The level and extent of demand, the money supply, the technology of supply, and the managerial skills of the entrepreneurs are all aspects of the distribution system's environment, and the stage of development for each has a measurable impact on distribution structure (13).

A marketing channel has boundaries, as all systems do. These include the geographical (market area), the economic (capability to handle a certain volume of goods or services), and the human (capability to interact) (14). Furthermore,

FIGURE II.1

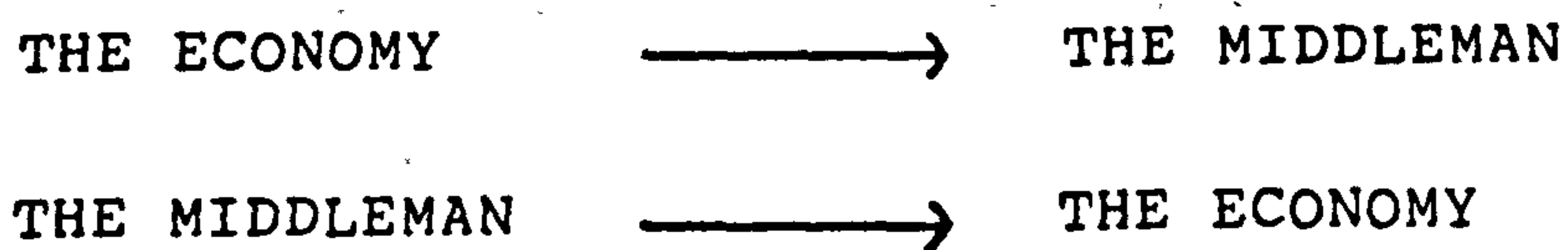
MARKETING FLOWS IN CHANNELS



Source: Adapted from R.S. Vaile, E.T. Grether, and R. Cox. Marketing in the American Economy. New York, The Ronald Press, 1952. p. 113.

a channel, like other systems, is part of a larger system which provides it with inputs and which imposes restriction on its operation (15). The configuration of systems is portrayed in Figure II.2, The Channel as a Processing Subsystem within the Environment.

On the other hand, as has been mentioned earlier, commerce influences the economy. The functions for moving the flows, the utilities that are provided in terms of lot-size adjustment, the satisfying of user time horizons and assortment building, and market interconnection effectively describe the nature of the work undertaken by the middlemen (16). Bucklin hypothesizes that there is a direction of causality moving both to and from the middleman which is expressed in the relationships (17):



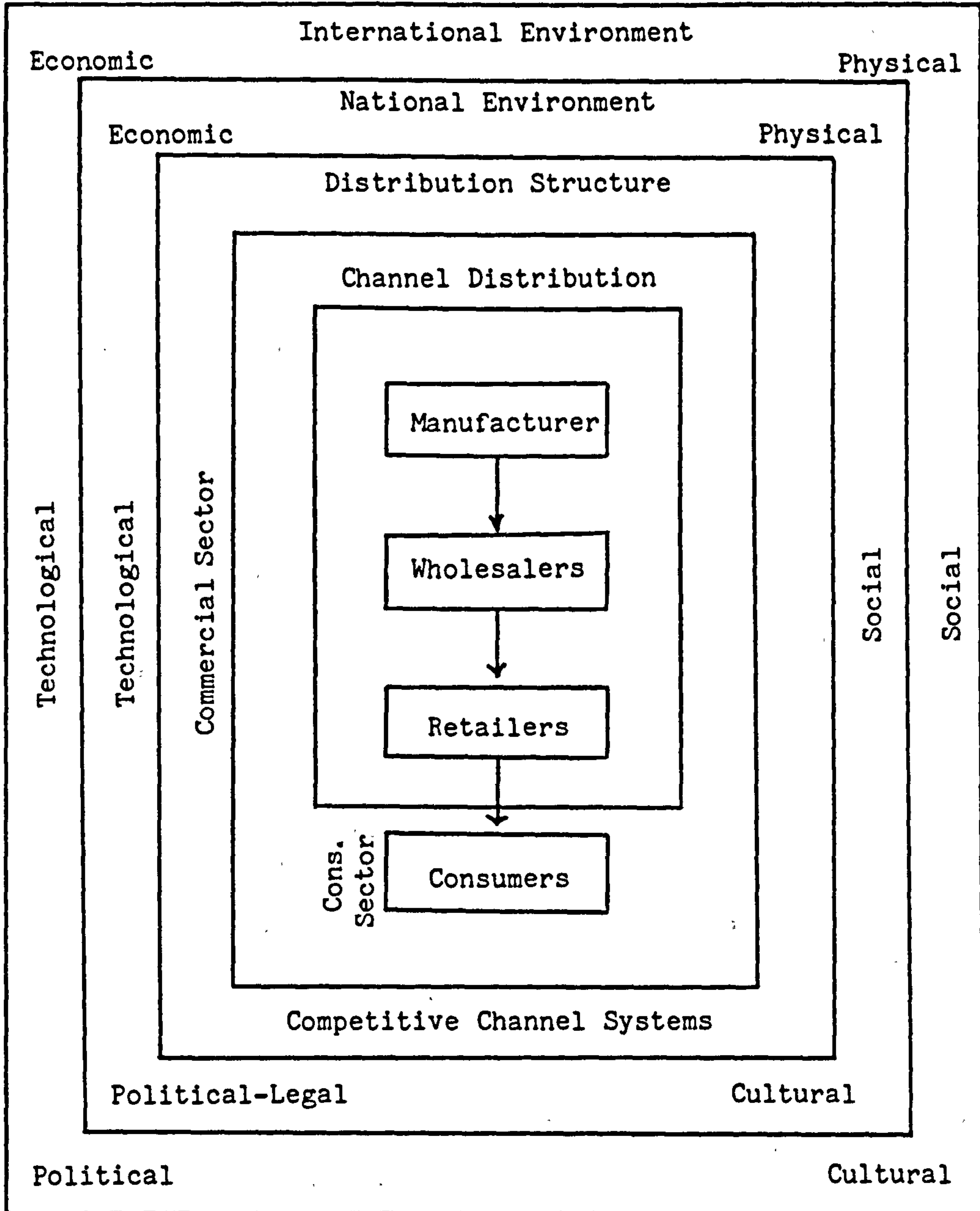
Literature on economic development has shown a mutual relationship between economic development and change in social structure (18). In short, there is a system of reinforcement that moves the system upwards: changes in social structure lead to changes in economic institutions (including better distribution), which in turn lead to further changes in social structure and so on (19).

With regard to Indonesia, we may assume that its economic development has caused changes in its distribution system. The question is whether the change was optimal, or in other words whether various possible alternatives have been explored. Unfortunately there has been no study found describing the current state of distribution development by the private or state sectors. Many are concerned about improving Indonesia's distribution systems and the most obvious improvements are in the physical facilities, such as market centres, grain-storage facilities, and transport facilities. Some have expressed concern over the revival of the defunct function of the once integrated "Big Ten" Dutch commercial enterprises. It was alleged that these companies were able to link consumers and producers efficiently both in the domestic market and the world trade (20).

As has been mentioned in Chapter I, the focus of this study is on the domestic channel system. Some of the questions relevant to this study are as follows:

- (1) At what stage is Indonesia's distribution system?
- (2) Can VMSs become one of the promising alternatives?
- (3) What factors argue for and against these vertical systems?
- (4) If VMSs are promoted, in which part of the economy will they be most suitable?

FIGURE II.2

THE CHANNEL AS A PROCESSING SUBSYSTEM WITHIN THE ENVIRONMENT

Source: L.W. Stern and A.I. El-Ansary. "Marketing Channels", Prentice-Hall Inc., Englewood Cliffs, New Jersey, 2nd. ed., 1982, p. 19.

In this section some theoretical analyses will be done to answer these questions. It is hoped that the empirical analysis of this study will further clarify some of the questions mentioned above. In the first part of this section, various types of distribution channels will be described and the focus will be on the VMSs. Then the entrepreneurial aspect of the small business participants in the various types of channel will be discussed. Franchising is chosen as the model in VMSs to be compared with the empirical data for various reasons which will be explained in due course. At the end of this section Bucklin's theory on the stages of retail market structure will be used to analyse the position of VMSs in Indonesia's conditions.

B. VERTICAL MARKETING SYSTEMS: TYPES AND CONCEPTS

The most often quoted definition of Vertical Marketing Systems is McCammon's namely

"...professionally managed and centrally programmed networks (that are) preengineered to achieve operating economies and maximum market impact. Stated alternatively...vertical marketing systems are rationalized and capital intensive networks designed to achieve technological, managerial, and promotional economies through the integration, coordination, and synchronization of marketing flows from points of production to points of ultimate use (21)."

In contrast to the conventional channel, the emergence of vertical marketing systems implies the existence of a power-locus in the system which provides for channel leadership, role specification, coordination, conflict management, and control (22). Stern and El-Ansary write that conventional marketing channel networks generally comprise isolated and autonomous units, each of which performs a traditionally defined set of marketing functions. Coordination among channel members is primarily achieved through bargaining and negotiation. The operating units within such channels are frequently unable to achieve systemic economies. Furthermore, there is usually a low index of member-loyalty and relatively easy entry to the channel (23). A detail analysis of the distinctions between vertical marketing systems and conventional marketing channels has been written by McCammon and is presented in Table II.1, Characteristics of Conventional versus Vertical Marketing Channel Networks (24).

TABLE II.1

CHARACTERISTICS OF CONVENTIONAL VERSUS VERTICAL MARKETING CHANNEL NETWORKS

<u>Network Characteristics</u>	<u>Conventional Marketing Channel</u>	<u>Type of Network</u>	<u>Integrated Marketing System</u>
Composition of network	Network composed of isolated and autonomous units, each of which performs a conventionally defined set of marketing functions. Coordination primarily achieved through bargaining and negotiation.	Network composed of interconnected units, each of which performs an optimum combination of marketing functions. Coordination achieved through the use of detailed plans and comprehensive programs.	
Economic capability of member units	Operating units frequently unable to achieve systemic economies.	Operating units programmed to achieve systemic economies.	
Organizational stability	Open network with low index of member loyalty and relative ease of entry. Network therefore tends to be unstable.	Open network but entry rigorously controlled by the system's requirements and by market conditions. Membership loyalty assured through the use of ownership or contractual agreements. As a result, network tends to be relatively stable.	
Number and composition of decision makers.	Large number of strategists supported by a slightly larger number of operating executives.	Limited number of strategists supported by a <u>significantly</u> larger number of staff and operating executives.	
Analytical focus of strategic decision makers	Strategists preoccupied with cost, volume, and investment relationships at a <u>single</u> stage of the marketing process.	Strategists preoccupied with cost, volume, and investment relationships at <u>all</u> stages of the marketing process. Corresponding emphasis on the "total cost" concept accompanied by a continuous search for favorable economic trade-offs.	
Underlying decision-making process	Heavy reliance on judgmental decisions made by generalists.	Heavy reliance of "scientific" decisions made by specialists or committess of specialists.	
Institutional loyalties of decision makers	Decision makers emotionally committed to traditional forms of distribution.	Decision makers <u>analytically</u> committed to marketing concept and viable institutions.	

Source: B.C. McCammon. Perspective for Distribution Programming, in L.P. Bucklin, ed. Vertical Marketing System. Scott, Foresman and Co. Glenview, Illinois, 1970, p. 44.

Three types of vertically integrated marketing channels are identified in the literature, namely: (1) corporate systems, (2) contractual systems, (3) administered systems. A brief explanation of each is presented below on the basis of Stern and El-Ansary's writing (25).

1. Administered vertical marketing systems.

In an analytical sense these systems are one step removed from conventional marketing channels. In an administered system, coordination of marketing activities is achieved through the use of programmes developed by one firm or a limited number of firms. In such systems, administrative strategies, combined with the exercise of power, are relied-on to obtain systemic economies. Successful administered systems are conventional channels in which the principles of effective interorganization management have been correctly applied. In these systems units can exist with disparate goals, but a mechanism exists for informal collaboration for inclusive goals. In the absence of a formal inclusive structure the decision-making takes place by virtue of the effective interaction of channel members. The locus of authority still remains with the individual channel members. The latter are autonomously structured but are willing to agree to ad hoc divisions of labour without restructuring. As in conventional channels, commitment is self-oriented, but there is at least a minimum amount of system-wide orientation among the members. These systems are commonly used by large manufacturing firms operating in Indonesia which under the law are not permitted to engage in trade (26).

2. Contractual vertical marketing systems.

Often organizations desire to formalize role obligations within their channel networks by employing legitimate power as a means of achieving control. In these situations, vertical coordination is frequently accomplished through the use of contractual agreements. While virtually every transaction among businesses, and between businesses and individuals, is covered by some form of contract, either explicit or implied, the primary function of the contracts in these vertical marketing systems is that they specify, in writing, the marketing roles to be assumed by each party to the contract. Contractual integration takes a variety of forms. The three principal forms of contractual integration are wholesaler-sponsored voluntary groups, retailer-sponsored cooperative groups, and franchise systems. From an interorganization management perspective, contractual vertical marketing systems can be viewed as networks in which the members have disparate goals but where there exists some formal organization for inclusive goals. Decision making generally occurs at the top of the inclusive structure but is subject to ratification by the members. The locus of

authority in such a network rests primarily (but not exclusively) with the individual members. The latter are autonomously structured, but will generally agree to divisions of labour which may in turn affect the basic structure of the channel. In such networks, norms of moderate commitment to the channel system exist, and there is at least a moderate amount of system-wide orientation among the members. To a significant extent, channel members are willing to trade some degree of autonomy in order to gain scale economies and also market impact.

3. Corporate vertical marketing systems.

These systems exist when channel members on different levels of distribution for a particular product are owned and operated by one organization. By virtue of ownership, a channel member can achieve operating economies and absolute control over the marketing activities of other channel members. Such a system will usually have better opportunities for exploiting economies of scale through increased programming of distribution activities, and it is also likely that corporate systems will allow more free and rapid communication between the various distributive levels. The integrated firm may also find it easier to protect its goodwill and trademarks than might otherwise be the case if it were to depend on a large number of independently-owned middlemen merely using its name.

Table II.2, Organizational Dimension of Conventional and Vertical Marketing Systems, has been produced by Stern and El-Ansary on the basis of Warren's writing (27). This table summarizes some of the characteristics of each type of channel systems discussed earlier.

With regard to the relationship between centralized coordination and channel efficiency Childerley writes:

"...the literature has shown that, generally speaking, a positive relationship can be expected between centralized co-ordination and channel efficiency. That the literature has not developed further is not because of the quality of the work in the area, some of it is admirable, but because of the lack of scholars investigating the relationship between vertical integration and performance. This has meant there have been few new major empirical studies to develop and expand ideas, and few attempts at integrating the work from other areas of enquiry into that of vertical integration and performance in marketing channels (28)."

Childerley has produced a diagram which shows the relationship between various types of marketing channel networks and efficiency (29), which is presented in Figure II.3, Types of Marketing Channel Networks and Efficiency.

TABLE II.2

ORGANIZATIONAL DIMENSION OF CONVENTIONAL AND VERTICAL MARKETING SYSTEMS

<u>Dimension</u>	<u>Conventional</u>	<u>Administered</u>	<u>Contractual</u>	<u>Corporate</u>
Relations of units to and inclusive goal	No inclusive goal	Units with disparate goals, but informal collaboration for inclusive goals	Units with disparate goals but some organization for inclusive goals	Units organized for achievement of inclusive goals
Locus of inclusive decision making	Within units	In interaction of units without a formal inclusive structure	At top of inclusive structure, subject to unit ratification	At top of inclusive structure
Locus of authority	Exclusively at unit level	Exclusively at unit level	Primarily at unit level	At top of hierarchy of inclusive structure
Structural provision for division of labor	No formally division of labor within an inclusive context	Units structured autonomously, may agree to ad hoc division of labor, without restructuring	Units structured autonomously, may agree to a division of labor, which may affect their structure	Units structured for division of labor within inclusive organization
Commitment to a leadership subsystem	Commitment only to unit leaders	Commitment only to unit leaders	Norms of moderate commitment	Norms of high commitment
Prescribed collectivity-orientation of units	Little or none	Low to moderate	Moderate to high	High

Source: Stern and El-Ansary, Ibid, p. 257. Adapted from Roland L. Warren, "The Interorganizational Field as a Focus for Investigation," Administrative Science Quarterly, Vol. 12, 1967, pp. 396-419.

From Figure II.3 we can conclude that a close relationship system, especially a corporate one, enjoys many benefits, such as coordination, economy, and efficiency.

According to Arndt, in "internal" or "closed" interorganization transactional structures, or as he calls it "domesticated markets", there are the following advantages (30):

- a. The benefits relate to reducing uncertainty in operations, to savings in transactional costs, and to the synergy of combining complementary operations.
- b. The possible involvement in long-term commitments of many organizations in the system reduces the uncertainties of opportunism and sudden withdrawal.
- c. Coalitions of cooperating organizations offer opportunities to reap economies of scale by sharing resources in supplies, production, distribution and management.

Izraeli writes that it has generally been assumed by writers in the field that corporate systems (or multiple organizations) have certain inherent advantages over voluntary organizations (or other types of VMSs), and that the latter, because of their inherent disadvantages, can only strive to emulate the former but are destined to remain the second best (31). There are, however, some disadvantages of the former which derive from the fact that corporate systems are run by managers instead of owners and managers may lack "felt-ownership": this lack of "felt-ownership" will produce behaviours which contrasts strongly with that of an owner-manager. Dailey analyses the difference between bureaucratic and entrepreneurial styles of management. His findings are summarized in Table II.3, Bureaucratic versus Entrepreneurial Styles of Management. In short, managers may lack entrepreneurship and motivation.

A manager of a unit or a branch-manager may display entrepreneurial behaviour. The lack of felt-ownership may be mitigated if the branch-manager is given autonomy. Deeks writes that if a person can make decisions about his work, and identifies with his work, makes a kind of personal psychological investment in it, then he will feel rights of ownership (32). Izraeli ranks franchising and the autonomous type of corporate system (or voluntary multiples) as about equal in this entrepreneurial and motivation aspect (33).

From the foregoing discussion we can conclude that there are advantages and disadvantages in each system. Loosely integrated (less structured or decentralized) marketing channels seem to enjoy more advantages which are associated with factors such as entrepreneurship and motivation. The more tightly integrated (more highly structured or centralized marketing channels), on the other hand, enjoy the advantages derived from central control, specialization, and standardization (34).

FIGURE II.3

TYPES OF MARKETING CHANNEL NETWORK AND EFFICIENCY

Channel Type/Structure	Conventional Marketing Channels	Vertically Integrated Marketing Channels			
		Administered Systems	Contractual Systems		Corporate Systems
		Retailer Co-operative	Wholesaler Sponsored Chain	Franchising	
Formalisation of Vertical Integration	NONE				HIGH
Centralisation of Power and Co-ordination	NONE				HIGH
Facility to Manage the Channel	NONE				HIGH
Degree of Co-ordination	LOW				HIGH
Economies	NONE OR DISECONOMIES				MANY
Channel Efficiency	LOW				HIGH

Source: A.M. Childerley, Vertical Integration and Performance in Marketing Channels, Unpublished PhD thesis, Cranfield Institute of Technology, Cranfield, 1980, p.28.

TABLE II.3

BUREAUCRATIC VERSUS ENTREPRENEURIAL STYLES
OF MANAGEMENT

	<u>Bureaucratic style</u>	<u>Entrepreneurial (or teleocratic) style</u>
Definition	Organization viewed as an impersonal machine governed by rules, not people.	Organization viewed as a living being, growing and change-seeking, infused with personality.
Origins	Excesses of industrial revolution and of spoils system in politics.	An innovative idea for a products, service, or realization of an opportunity.
Purposes of organization	Control behavior and prevent excess.	Release human energies by presenting opportunities which call them forth.
Measurement	Measure internal occurrences, especially deviations from plan, policy, or budget.	Evaluate environmental responses to the organization's actions or products.
Structural principles	Hierarchic, derived from military and/or from mass-production models.	Process, project, and goal-oriented, derived from marketing or R&D models.
Objectives of work	The work itself.	The effects of the work
View of the future	The future is a continuation of the past.	The future is what is possible in realizing its opportunities.
The past	Limits the future.	Example of what can happen but not seen as a limit.
Attitude	Stability is more important than change.	The most important thing is to choose which changes will be most productive and to seek them.

Source: C.A.Dailey. Entrepreneurial Management: Going All Out for Results. McGraw-Hill Book Company, New York, 1971, p.21.

What are the factors which influence the decision to have a loose or a tight control channel system? There follows some evidence from various industry sectors. Some industries, such as automobile and tyre manufacture, have not integrated more extensively down to the retail level (35). This is because of the following factors:

- a. The superior market incentives for entrepreneurial performance and the mechanisms for decentralized decision making at the retail level.
- b. Dealings with customers may require a flexibility or discretion in negotiating individual transactions that is rather too high to be entrusted to a salaried employee - as in bargaining on the price of an automobile or a set of steel-belted radial tyres (36).

There may be political consideration for large enterprise to work with small businesses in a vertical linkage system. Harper writes that large international companies have to ingratiate themselves with local society and government, and there is no better way they can do this than by making it clear that they are helping local small enterprises (37). As has been mentioned, the Indonesian law prohibits foreigners and foreign manufacturing companies to engage in domestic trade (38). Thus there is a political pressure for foreign firms to work with independent domestic distributors. In some cases the local partners are not yet capable to handle the business as required, and, therefore, a VMS type of relation is set up.

On the other hand in other industries there has been a trend towards more corporate systems. Franchisees' outlets have been taken-over by franchisors and have become company-operated units (39). The reasons for this trend are: (1) to increase profit, (2) to have greater control over the units, (3) to avoid legal problems arising from franchisees' dissatisfactions, and (4) new restrictive legislation reducing flexibility in dealing with franchisees (40).

According to Stern and El-Ansary, the discussion of whether or not to integrate vertically is a very complex issue (41). The effectiveness of a channel network is one of the criteria for analysing the alternatives. In order to measure effectiveness, a channel network is viewed as a superorganization (42). Izraeli writes that an effective organization is one that "fits" the environment in which it operates (43). The problem of whether a particular type of organization is more effective than another needs to be examined in terms of its ability to cope with the requirements of the environment (44). With regard to the relationship between the degree of certainty in the environment and the authority required for performing a task, Izraeli writes as follows:

"The amount of authority required for performing a task or activity is related to the degree of certainty of the environment with which this activity transacts (45)."

In an uncertain environment, where the organization cannot with sufficient certainty predetermine and pre-establish the course of action best suited to cope with it, the best structure is the loose type or a relatively less formalized one (46). In this case entrepreneurship may play an important part. In a more certain environment, on the other hand, it allows for various routine modes of operation to be laid down, and daily transactions can then be conducted according to pre-established rules and regulations (47). Where this is the case, the structure will be made more effective by formalized procedures, and instead of an entrepreneur the organization needs only an "operator".

C. FRANCHISING: TYPES AND GROWTH

From the foregoing discussions and Figure II.3, we can conclude that franchising is one of the most centralized and highly coordinated types of channel network. The relationship between franchisor and franchisee covers a great many aspects. One of the most advanced type of franchising is the "business format" franchise. According to David Churchill, it is in the second generation or "business format" franchise operations that most of the growth is being recorded and on which most attention from companies and potential franchises is being focused (48). The following are the basic features which must be present in every business format franchise (49):

- (1) There must be a contract containing all the terms agreed upon.
- (2) The franchisor must initiate and train the franchisee in all aspects of the business prior to the opening of the business and assist in the opening.
- (3) After the business is opened the franchisor must maintain a continuing interest in providing the franchisee with support in all aspects of the operation of the business.
- (4) The franchisee is permitted under the control of the franchisor to operate under a trade name, format and/or procedure, and with the benefit of goodwill owned by the franchisor.
- (5) The franchisee must make a substantial capital investment from his own resources.
- (6) The franchisee must own his business.
- (7) The franchisee will pay the franchisor in one way or other for the rights which he acquires and for the continuing services with which he will be provided.

(8) The franchisee will be given some territory within which to operate.

As has been mentioned earlier, there is, however, some variation in arrangements between franchisors and franchisees. Many aspects of the relationship are discussed mutually or laid down by the franchisor, so that any franchise may have peculiarities of its own. In general, however, a franchise agreement is a marketing partnership. The franchisee provides some financing for his or her own business and the motivation of an independent operator and local management skills, while the franchisor provides a proven product or service and standardized operating procedures (50). Franchisor provide both initial and continued services to their franchisees (51). Examples of various types of franchising are presented in Table II.4, Types of Franchise Systems (52).

Franchising is used in a wide variety of business. Mendelsohn provides a long list of franchise business classifications in USA (64 classes) and in UK (24 classes) (53). According to Bernstein, franchisees in the USA are being offered in ever widening fields and in ever increasing numbers (54). In the USA, the largest proportion of franchises is in the retail and service fields (55). Bernstein produces an interesting table of relationships between a franchisee's background and financial resources and the type of franchise (56). There are franchises suitable for persons with limited background and experience and limited financial resources, such as those franchises involving personal services. At the other extreme, there are franchises suitable for persons having broad business experience and responsibility, and with substantial financial resources, such as those in motels and major-car rentals. Between these two extremes there are various combinations of the franchisee's background and his-or-her financial resources. From Bernstein's table we can conclude that franchise business can accomodate wide varieties of franchisee background and financial resources. Bernstein's table was produced in 1968 in the USA, and it is very likely that there have been some changes in the data presented but the purpose of presenting it is to show the classification he has made and the variety of franchise types in each class. For the detail see Table II.5.

The impact of franchising in the USA's socio-economy is illustrated by Izraeli in the following quotation:

"The dramatic growth of modern franchising has captured the American imagination. As a form of business arrangement, its recent history symbolizes the key elements of the "American dream" - economic success, the indomitable spirit of the 'small man' who seeks against all odds to be his own boss, and his rise "from rags to riches". Franchising has injected these supreme American values with renewed life and credibility. Its growth has been acclaimed,

TABLE II.4

TYPES OF FRANCHISE SYSTEM

<u>Type</u>	<u>Explanation</u>
Territorial franchise	The franchise granted encompasses several counties or states. The holder of the franchise assumes the responsibility for setting up and training individual franchisees within his territory and obtains an "override" on all sales in his territory.
Operating franchise	The individual independent franchisee who runs his own franchise. He deals either directly with the parent organization or with the territorial franchise holder.
Mobile franchise	A franchise that dispenses its product from a moving vehicle, which is either owned by the franchisee or leased from the franchisor. Examples include Tastee Freeze and Snap-On Tools.
Distributorship	The franchisee takes title to various types of goods and further distributes them to subfranchisees. The distributor has exclusive coverage of a wide geographical area and acts as a supply house for the franchisees who carry the product.
Co-ownership	The franchisor and franchisee share the investment and profits. Examples include Aunt Jemima's Pancake Houses and Denny's Restaurants.
Co-management	The franchisor controls the major part of the investment. The partner-manager shares profits proportionately. Examples include Travelodge and Holiday Inn in the motel business.
Leasing	The franchisor leases the land, buildings, and equipment to franchisees. This is used in conjunction with other provisions.
Licensing	The franchisor licenses the franchisee to use his trademarks and business techniques. The franchisor either supplies the product or provides franchisees with a list of approved suppliers.
Manufacturing	The franchisor grants a franchise to manufacture its product through the use of specified materials and techniques. The franchisee distributes the product, utilizing the franchisor's techniques. This method enables a national manufacturer to distribute regionally when distribution costs from central manufacturing facilities are prohibitive. One example is Sealy.
Service	The franchisor describes patterns by which a franchisee supplies a professional service, as exemplified by employment agencies.

Source: Based on Gerald Pintel and Jay Diamond. Retailing , Englewood Cliffs, N.J. Prentice-Hall, 1971, pp.23-26.

TABLE II.5

RELATIONSHIP OF PROSPECTIVE ENTERPRISERS TO TYPES
OF AVAILABLE FRANCHISES

<u>Prospective Enterprisers</u>	<u>Resources</u>	<u>Kinds of Franchise</u>
Men with limited background and experience	Minimum (under \$5,000)	Those involving personal services, i.e., On-location cleaning of carpets Mobile distributorships Routes and vending machines, rack jobbing
	Modest (\$10,000) area	Convenience food outlets Small take-cut food operations Equipment rentals
Men with background and some business experience	Modest	Credit and collection services Security systems Hearing aids
	Moderate (\$25,000-50,000)	Many fast food operations Auto service operations Retail stores systems Travel agencies Art galleries
Men having broad business experience with responsibility	Modest	Business consulting services
	Moderate	Employment agencies Temporary help agencies Computer schools
	Substantial (\$100,000 area)	Regional franchises Motels Large food operations Entertainment Major car rentals Nursing homes

Source: L.M. Bernstein. Does Franchising Create a Secure Outlet for the Small Aspiring Entrepreneur, in Journal of Retailing, Vol. 44, N.4, Winter 1968-1969, p.25.

not only for its economic contribution, but also for its social significance as evidence that the interests of big business and those of "the small American" can be wedded in a union which is mutually profitable. Franchising thus vindicates and reinstates the independent businessman to his rightful place in the American Economy (57)."

The growth of franchising outside the United States is basically less prodigious. The development of a modern franchise sector came much later in the UK than in the USA. The British Franchise Association was incorporated in 1977, while the International Franchise Association in the USA was established in 1960. There has been no scientific analysis as to the factors causing the difference in growth between the USA and other countries. The causes of the growth of franchising in the USA itself have not been fully singled out and described.

The following are factors which have been mentioned in the literature as the causes of franchising growth in the USA (58). These are basically "pull" type factors:

- (1) The development of the car industry and highways:
 - The increase of the number of highly mobile customers who seek familiar and reliable services as far as food, lodging, car repairs, and travel.
 - The continuing move to the suburbs.
- (2) The increase of population and wealth:
 - The need for luxury and impulse-buying products.
 - The move to a service-oriented economy because of more money to spend and more leisure time.
- (3) The dynamic economic, technological and social conditions:
 - The many technological advances which have generated a flow of new business concepts.
 - The use of automated equipment.
 - The increased employment of women.
- (4) Standardization and well-planned training techniques.
- (5) The power of the press to promote franchising.

Most of the factors mentioned above originate from the upward movement of society, i.e. the increase in income and sophistication. On the other hand, there are factors of a "push" type. One of the factors causing the growth of franchising in the UK, as mentioned by David Churchill, is the recession (59). The rise of unemployment, and especially of those who have redundancy pay to invest, enables companies

without the means to expand to find a source of finance and high-calibre personnel. And for the newly unemployed, franchising offers an ideal way to start-up their own business. Another "push" type of factor which causes the growth of franchising or other VMSs is mentioned by Izraeli: The increasing concentration in business enterprises pushed out the small independent operator. By joining a franchise organization he would improve his competitive position (60). This phenomenon happened both in the USA and the UK. In the grocery trade in Britain, thousands more would have lost their businesses had they not joined voluntary chains (61).

Large USA franchisors are moving rapidly into foreign markets (62). Only few writers mention, (and usually in a fairly limited form) their impact to the growth of overseas businesses. Channon mentions that the increases both in the number of American companies trading in the UK and in the activities of existing American companies, are factors which may stimulate the UK's franchising growth (63). The number of US franchisors who have exported their operations and the number outlets which have been opened are presented in Table II.6 (64).

TABLE II.6

THE NUMBER OF US FRANCHISORS AND OUTLETS OVERSEAS

<u>Location</u>	<u>Franchisors</u>	<u>Outlets</u>
Canada	209	7068
Caribbean	76	541
Europe (excluding U.K.)	75	3393
Japan	63	3999
Asia (excluding Japan)	59	746
U.K.	52	2113
Australia	49	1693
South America	42	318
Mexico	35	403
Middle East	31	184
Africa	29	515
Central America	25	140
New Zealand	13	303

Source: Franchising in the Economy 1981-1983,
U.S. Department of Commerce.

From the above discussion we can conclude that no single factor has accounted for the startling expansion of franchising both in the USA and elsewhere. Therefore it is difficult to forecast the development of franchising or VMSs in Indonesia on the basis of the foregoing indicators. There are, however, some indications that Indonesia's modern sector exhibits some of the above mentioned characteristics, i.e. the "push" and "pull" factors.

D. FRANCHISEE'S ENTREPRENEURSHIP

No comprehensive study had been found comparing the entrepreneurial quality of franchisees with those of independent entrepreneurs before this study was conducted in 1983. Stanworth, Curran, and Hough's study among franchisors and franchisees in U.K., which was published in 1984, concentrated on the independence aspect of the franchised small business. They make the following conclusion:

"Compared to the conventionally independent small business, the franchised small enterprise is less independent at both the formal and operational levels. But this distinction is a relative one. In practice, in a successful franchise, it might be argued that differences between a franchisee and a conventionally independent small business owner, particularly where the latter is operating in a highly competitive market, are not large (65)."

The structural dependency situation of franchising may constrain franchisees' entrepreneurship. With regard to a structural dependency situation, Long writes as follows:

"A basic conceptual problem is that participation in any kind of relationship involves some degree of dependence on the part of the parties concerned since having a relationship with someone implies the exclusion of other possible alternatives. It is important therefore to try to specify the conditions under which different types and degrees of structural dependency of domination exist (66)."

A franchise relationship may cover relations in various types of business activities, which means that in those business activities there are fewer alternatives for franchisees to choose between or decide on, e.g. the types of product sold and the sales territory. Bolton and others consider that independence is a prerequisite for a small business establishment being regarded as a small business firm. Here the independence of the firm is in the sense that it does not form part of a larger enterprise and that the owner-managers are free from outside control in taking their principal decisions (67).

One of the most likely crucial tests as to whether franchisees are really independent entrepreneurs rather than managers or employees is, therefore, their "freedom" to make decisions. Some studies in franchising, e.g. Stanworth and others' study mentioned earlier, used 'the degree of freedom to make decisions' to measure the independence of small business and the power-dependence relation between franchisor and franchisee (68). Unfortunately there is no conclusive answer to this. Every fully developed franchise calls for commitments by the franchisee. In effect, he thereby

gives up some of his independence by agreeing to conform to a certain course of action to the extent specified (69). But despite these restraints and limitations, the franchisee still runs his own business, and in the final analysis his operation of it will determine its success or failure. That is why the Small Business Administration has concluded that a franchisee can qualify for a small-business loan, that he needs only show that he has the right to the profit of his operation and accepts risk of loss (70). The franchisees have to accept that they have to sacrifice some of their independence, but therein for many lies the best practical means of salvation (71). Bernstein (72), Ozanne and Hunt (73) write that franchisees consider that they have great freedom or independence.

On the other extreme, Wattel writes as follows with regard to franchisees' characteristics and business activities (74):

"Apparently, the franchisee needs less planning ability, less creativity and less competitiveness; instead, he needs a highly cooperative personality, including the ability and willingness to follow the decisions, policies and daily routines laid down by others...his function is more in the category of middle management (if we may make an analogy to large firms) than in top management. Thus the franchisee seems to require far less in the way of managerial talent than does the independent owner-operator...He should gain as much (or more) personal satisfaction from executing the policies of others as in formulating them himself; he should be content to adopt his personal behavior, and even his ways of thinking, to the policy-making of the franchisor. Otherwise,...he will soon become restive under the franchisor's restraints (75)."

Wattel's view puts franchisees in the position of middle management far from having the characteristics of entrepreneurs. Ozanne and Hunt also question the entrepreneurial status of the franchisees. They describe the status of the franchisees in the convenient grocery franchise in the USA as follows:

"Some convenience grocery systems supervise their franchisees so closely that a strong case should be made that the franchisees are simply employees of the franchisor working on a profit sharing plan (76)."

Between these two views mentioned above, there are various possibilities of describing franchisees as entrepreneur or non-entrepreneurs. It is very likely that the degree of freedom of a franchisee depends heavily on the degree of control built into the franchise system and on how the franchisor exercises the power sources it has. Each franchise system or vertical linkage system therefore has to be considered as having its own "entrepreneurial freedom"

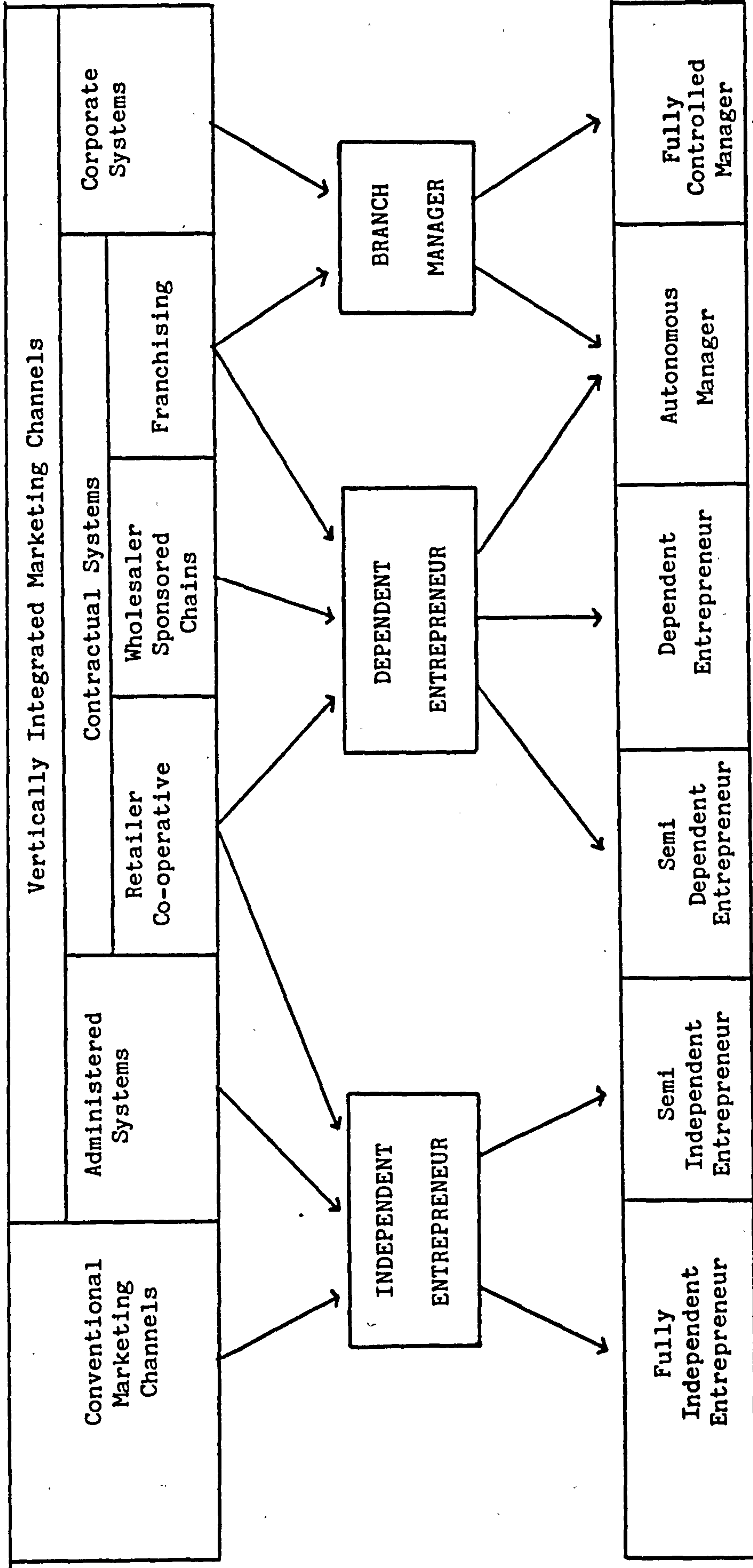
characteristics as far as the small business participants are concerned.

An external confirmation on the viability of franchising as a sound business practice has come from the banking sector. In the USA, the Bank of America has produced a leaflet which describes this franchise business as objectively as possible and concludes that the basic concept of franchising is sound. While in the U.K., according to Mendelsohn, two banks have taken franchise financing very seriously, namely the National Westminster Bank PLC and Barclay's Bank PLC (77). Bernstein writes about this external confirmation of the value of franchising in the USA. The moves by major firms, for instance Standard Oil of Ohio, American Broadcasting Company and Great Lakes Carbon Corporation, to operate as franchisees, and by General Foods, Pilsbury and United Fruit to acquire franchisor companies is clearcut confirmation of their belief that franchising works and that these systems will continue to be successful (78).

From the foregoing discussion of the relationships between various types of distribution system and the entrepreneurial aspect of the channel member, a diagram can be constructed. A conspectus of the relationships is presented in Figure II.4. From the figure we can see some overlapping characteristics among various types of channel network in terms of their entrepreneurial aspects. There are basically three types of unit or establishment head : independent entrepreneur, dependent entrepreneur, and branch manager. Each of them may have various degrees of freedom for making decisions on various matters in their respective establishments. We can therefore make further sub classifications, such as semi independent or dependent entrepreneur and so on. Franchising is the one which has the most confused and diverse position, namely from a semi dependent/independent entrepreneur up to a fully controlled manager.

FIGURE II.4

CHANNEL TYPED, ENTREPRENEUR AND MANAGER



E. FRANCHISING AS A POTENTIAL MODEL FOR INDONESIA'S VMSs

Why has franchising been chosen as the model to compare with the existing pattern of some vertical marketing systems in Indonesia? Here are some of the main reasons:

1. Franchising has been developed to a relatively mature stage in the USA. The positive and negative consequences of franchising to small businesses, to large firms and to society have been investigated, and that the basic concept of franchising is a sound one is rarely disputed even by its critics (79). According to Hunt, the net socio-economic consequences of the franchise system of distribution appear on balance to be positive (80).

2. Franchising offers a way of developing potential entrepreneurs from the majority group in Indonesia, who have little or no opportunity to enter business fields, which most probably will always be dominated by groups which have more business experience. Many franchisors prefer franchisees who have no background in the particular type of business, so that they can more easily train them in their own policies and methods (81). The franchisee's lack of basic or specialized knowledge and experience is overcome by the franchisor's training programme (82). In business-format franchising, the franchisor provides a blueprint of how the business should be operated (83). According to Hunt, franchising makes a substantial contribution to the creation of small new businesses (84).

3. Franchising reduces the tendency to limit a person's occupation on the basis of his/her experience or social background. The plural-society phenomenon which prevails in Indonesia (85) tends to segregate society into separate social orders (86) or to cause a sectional division of labour (87). This problem of preserving a particular business occupation for someone who has been socially or ethnically born for that job will be partially overcome. According to Bernstein, it is true that most franchisees are without specific experience in the business they enter, and good training greatly increases their chances of success (88). However, it also has another important aspect, adds Bernstein. Without the franchise system type of training and management support, the man or woman seeking to operate his own business tends to be limited to fields in which he has already accumulated some experience and know-how. Franchising widens his horizon, giving him a greatly extended choice of fields. A franchisor's training programme can readily encourage applicants to enter fields they would not otherwise consider, and to do so with good chances of success.

4. Franchising offers a way of solving small business failure problems. Small business in many fields find it increasingly difficult to survive the impact of intensified competition

by large firms, added to the small businessman's ever-present difficulties of insufficient capital and inadequate management skill (89). The franchisee obtains an operational system that might have taken years to develop independently, a product or service that has been tested and has proved successful, training in an area of business with which he/she may be unfamiliar, and continuing help and support (90). With the franchisor's continuing interest and assistance, the franchisee stands a better chance of surviving than do most independents, and in particular of overcoming the first two or three years' survival problems, as mentioned in Chapter I. In the USA, the International Franchise Association estimates the failures in the first year of operation of independent non-franchise operations at between 51% and 57%, which the failure-rate of franchise operations in their first year, is as low as 2% to 4% (91).

In Indonesia the exact figures of business failures are not known, but from the survey conducted by the Institute for Management Education and Development in Jakarta, a crude indication of this phenomenon has to some extent been discovered. The above institute has been given a current list of 1500 companies registered with a government agency dealing with small business. Only 360 have been found (92).

5. Franchising can be developed and started by relatively new and small entrepreneurial firms, and this contrasts strongly with the vertical integration systems developed in Japan, as described by Kono and mentioned earlier in Chapter I. The requirements for success in the Japanese system are that the parent firm's volume of production and sales have to be large enough; secondly size is needed to acquire power to control the auxiliary process companies (93). On the other hand, the move into franchising can arise in two sets of circumstances (94):

- (1) In order to expand an existing business by means of the franchise system.
- (2) Making positive attempt to set-up and establish a business for franchising by day one.

According to Mendelsohn, this step (2) is not recommended for those who are not familiar with the system (95). Ozanne and Hunt write that hundred of entrepreneurial businessmen started franchise systems in the 60's, most entering the industry with a modest amount of cash, a "concept" of doing business they believed to be unique, and the hope that their chain would be the new McDonalds or Kentucky Fried Chicken (96). These offensive type of entrepreneurs generally build a "pilot operation" in order to develop operating data and to have tangible proof of accomplishment to show to prospective franchisees (97). With this type of possibility to start an offensive venture and to expand rapidly through the franchise method, and coupled with all the other characteristics previously mentioned, franchising offers the possibility of benefiting a great many new entrepreneurs and

of countering the increasing effect on the economy of the giant corporations, often vertically and horizontally integrated (98).

F. THE PROBLEMS OF FRANCHISING

Despite the many advantages of franchising, there are many disadvantages for both franchisee and franchisor. Hunt and Nevin write that the franchise system of distribution in the USA has been deluged with legislation and litigation: Franchisee - versus - franchisor litigation has proliferated to the extent that some jurists consider the legal problems facing the franchise industry to be of crisis proportions (99). According to Izraeli, the criticisms of the franchising have been directed against unethical conduct by franchisors in general (100).

There are three types of unethical franchisor. One type is the fraudulent operator whose intent is to deceive. The second is the naive operator whose questionable ethical standing resides in the fact that he/she irresponsibly (though often with good intentions) causes damage to those associated with him. The third type is the oppressive operator who takes advantage of his power (101). Familiar with the extensive legislation and case-law in the USA Mendelsohn hopes that these will not be as successfully exported to England as the concept of business format franchising has been (102). Adams and Pritchard write that the U.K. trade association, The British Franchise Association, provides some safeguard against sharp practice (103). Its aims include establishing a clear definition of ethical franchising standards so as to assist members of the public, the press, potential investors, and government bodies to differentiate between sound business opportunities and suspect investment offers (104).

The franchise partnership is at best a difficult one. Its success depends on the competence and integrity of the franchisor, plus hard work, flexibility, and cooperation on the part of the franchisee. It also calls for commitment, goodwill, and common interest on the part of both parties. The problems faced are not all legal ones. Some of the most important are psychological, and can only be solved within the context of the franchise relationship (105). According to Mendelsohn, the relationship between the franchisor and franchisee is very special, and differs from most other business relationships (106). It is analogous to a parent/child relationship. As the child grows older so he/she becomes less dependent and more fiercely independent. Mendelsohn concludes that the recognition of and response to the changing and evolving nature of the relationship is an essential element in the skill of franchisor (107).

G. VERTICAL MARKETING SYSTEMS IN INDONESIA

No comprehensive study of the structure of Indonesia's current distribution systems has been found, but a description of the current stage of Indonesia's distribution may be approached by its retail market structure. According to Bucklin, the evolution of wholesaling both resembles and differs from the historical changes in retailing (108). The similarities of the retailing and wholesaling evolution appear in the market structure development. The difference occurs in the absence of the reintegration of product lines and functions present in retail operation (109). The analysis will therefore be limited to the theory developed by Bucklin as to the metamorphosis in retail market structure and a comparison of it with some facts in Indonesia.

Bucklin defines four different forms of retail market structures: periodic, permanent, fragmented and vertically integrated. The following are brief descriptions of Bucklin's retail market structure classification:

(1) Periodic markets

They were held at intervals and synchronized in some places with neighbouring markets. These are the most rudimentary form of organized retail trading.

(2) Permanent markets

In addition to being open for business on a regular basis, these markets usually boasted a variety of goods beyond local foodstuffs and handicrafts. They reflected the pressure of an improved wholesale mechanism that makes goods available from outside the local trading area, and served as a reliable means of exporting internal produce in exchange.

(3) Fragmented markets

Customers turned with greater frequency to stores carrying a more limited range of goods in a depth that allowed better display and product information, and more freedom of consumer choice. High-class patrons became dissatisfied with the limited assortments to be found in the small general stores. The retail market fragmented into literally hundreds of product-bits.

(4) Vertically integrated markets

The era of the large-scale department-stores, chain-stores, and mail-order-firms began. The increase in store-size involved the activity of allocating responsibility for each group of merchandise to a trusted employee. There was a delegation of management responsibility in retailing. In the wholesale market it reached the functional specialization stage. Functional specialization reflects a continuing emphasis upon

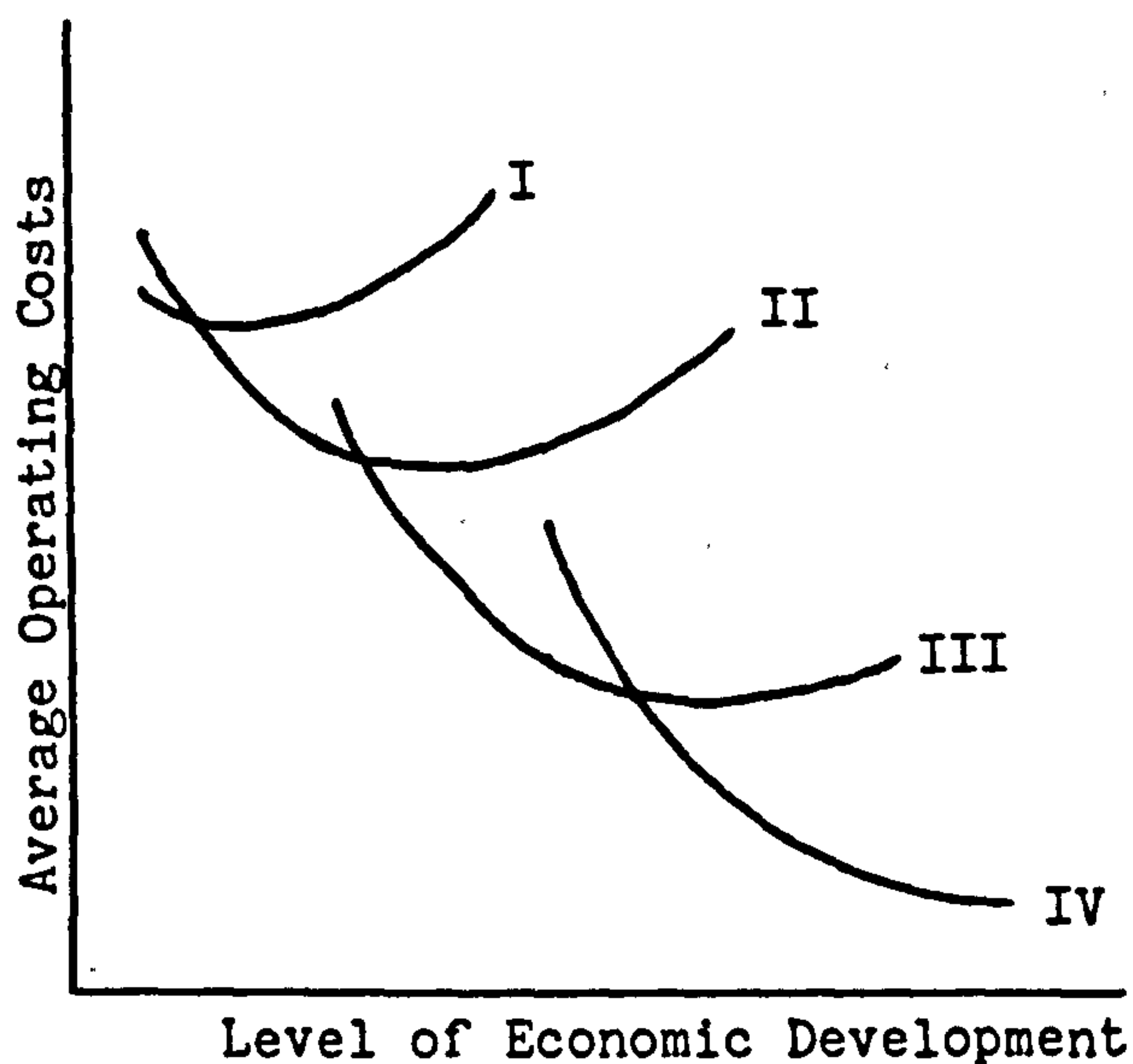
specialization, but with the division along channel flows-product, communication, and ownership. Chain-stores became one of the main retail methods.

Bucklin relates the operating costs of different types of retail system with regard to the level of economic development. The changes in the retail system along a continuum of economic development are presented in Figure II.5. There are several points that should be noted in reading this Figure II.5, namely:

- (1) In any economy, the stage of the retail system will vary according to product-line. For instance, a new product designed for the luxury market will probably be in the earlier stage of the retail system (i.e. one stage, the producer sells direct to end consumers). If the product eventually became more widely adopted, the system would undergo change and move slowly to a more modern type of structure (i.e. mass production and vertical distribution system).
- (2) The direction of movement is not always forward. The failure of entire economic systems, for instance because of a war or colonization, leads to retrogression and a retracing of steps back towards the early stage.
- (3) The movement is not always uniform across nations. This is particularly relevant for countries such as Indonesia which have many isolated areas owing to inadequate transportation and communication facilities.

Bucklin explains the relationship of the progress of the level of economic development and the types of retail systems as follows:

"At the lowest levels of economic development, the periodic market has the least cost. Simplest of all systems, it has minimal fixed costs. With economic growth, the permanent market, with its general store and craftsman, achieves lower costs and accomodates trade over a greater distance. The explosion of goods, however, leaves this system incapable of servicing consumer needs and physically handling the goods. The fragmentation of the market into a series of specialty stores occurs. Finally, as retail management comes to grips with simplifying its business and developing new techniques of control, large-scale institutions emerge and the fourth stage of vertically articulated firms appears (110)."

FIGURE II.5OPERATING COSTS OF DIFFERENT TYPES OF RETAIL SYSTEMS AND ECONOMIC DEVELOPMENT

Notes: I = periodic
 II = permanent
 III = fragmented
 IV = vertically integrated

Source: L.P. Bucklin, *Competition and Evolution in The Distributive Trades*, Prentice-Hall Inc., Englewood Cliffs, N.J., 1972, p.69

As has been mentioned in Chapter I, Indonesia is basically still in the agriculture stage, but is undergoing structural change. The growth of its industry has been speeded-up by domestic and foreign investments. Manufacturing industry produces mostly for the domestic market. According to Dholakia, parallel to the features of underdeveloped economies, the marketing systems of LDCs are characterized by development gaps as follows: lack of equity, non-diversified exports, persistent dualism, monopolistic power, and dependent structure (111). The following is a summary of Dholakia's opinion and that of some other writers, which are relevant for Indonesia's case:

1. Development gaps.

Throughputs, service levels, institutions, etc. of LDC marketing systems lag behind those of the developed countries by substantial factors. Unfortunately no data on

this aspect about Indonesia's commercial institutions have been found.

2. Lack of equity.

Marketing institutions are highly inequitable in the services provided and prices charged to low-income and high-income consumers (112). The fact that consumers in rural areas are poor and physical distribution facilities are inadequate means that service costs per unit of product tend to increase. This is primarily because the product has to be distributed in small lots, transported to distant places, and stored longer in the distribution pipe-line. On the other hand, the urban high-income consumers are able to buy in bulk, have the facilities for storing goods (e.g. refrigerators), and incur relatively low transport costs in moving the product from the manufacturers to the retail shops. These consumers in the cities can therefore buy the same quality of products sold in the rural areas at a lower price per unit. The increase in the people migrating to the urban areas of Indonesia in search of a better or more assured living is an indication of this phenomenon.

3. Non-diversified exports.

The Indonesian dependence on oil has been explained in Chapter I.

4. Persistent dualism.

Large sectors of the economy remain "non marketized" in the sense of being outside market systems. The scale of this phenomenon has not been found, but knowing that the majority of Indonesians are still in agriculture, it is very likely that this phenomenon is very widespread (113). Also, in the traditional economic sectors pre-capitalist institutional forms proliferate in the rural areas. In Bucklin's term the retail market is in the stage of periodic retail market structure. Geertz describes the bazaar type economy in a typical small town (114) which according to Bucklin belongs to the periodic stage (115).

5. Monopolistic power.

Market concentration and brand-dominance are even more pronounced in the LDCs than in the developed countries (116). In most manufactured goods, foreign brands or local brands with foreign collaboration are dominant, often having near monopoly. For non-branded commodities, powerful wholesalers dominate the system. In Indonesia the fresh-produce trades are dominated by large wholesalers, who although numerous are cohesive because of kinship ties (117). An example of market concentration owing to market forces is reported by Christianto Wibisono (118).

6. Dependent Structures.

The extent of dependency on Western and Japanese markets and business systems has been explained in Chapter I.

Morton Solomon analyses the structure of the market in undeveloped economies, and concludes that there are sharply different marketing methods and market structures among the following five-fold classification for goods and services, namely personal services, perishable produce, agricultural staples, manufactured consumer goods, and capital goods (119). The following are some main characteristics of market structures by types of product as classified above.

1. The personal services market.

- It occupies a minor role.
- In rural areas it is largely non-existent.
- Only members of the middle and upper classes resort to organized personal services.
- High government control at municipal level. Petty officials exploit personal profit opportunities in this weak sector.

2. The perishable produce market.

- Its marketing system is not yet developed, i.e. traditional marketing system.
- There is a lack of marketing organization and storage facilities.
- The market is local in nature.
- There is a lack of government intervention.

3. The agricultural staples market.

- This is the most important market.
- In the absence of government intervention, merchant wholesalers control the market.
- In some cases there are government monopolies.

4. The manufactured consumer-goods market.

- There are various type of supply sources, e.g. rural industries, urban handicrafts, domestic "putting-out" system, factories, and imports.
- On the retailing end, price competition is dominant, owing to the lack of non-price forms competition facilities.
- There are erratic and inconsistent government interventions, e.g. import regulations.

5. The capital goods market.

- This is the least developed market.
- The ambivalence in the political philosophy of economic life, e.g. laissez-faire versus other systems, inhibit the development of a secure capital goods market.

As has been mentioned earlier, the Indonesian market can be broadly divided into urban and rural markets. A further detailed analysis reveals that rural areas in Java are undergoing a relatively rapid transformation. Collier et al. summarize the acceleration of rural development of Java as follows (120):

"...between 1979-1982, rural Java continued its evolutionary advance, and is now becoming a semi-urban population with rural villagers maintaining close employment contacts with urban areas. The polarisation of the 1960s based on land ownership shifted during the 'green revolution' to the issue of employment, and now may be losing some of its intensity as non-agricultural employment becomes more common outside the village. There is thus some basis for hope that rural society in Java is becoming one marked by a small proportion of commercial farmers and agricultural labourers with reasonable living standards, and a much larger proportion, perhaps a majority, of villagers earning a substantial share of their family incomes from construction, services or the industrial sectors of the economy."

In the rural areas of Java periodic markets, however, are still an important feature of life in the villages, not only for the people who rely on trade for their incomes, but also for the millions of rural inhabitants they serve (121). Dewey compares the rural market systems, population density and geographical conditions in Java, Malaysia, West Africa, and Guatemala (122). She finds that there are similarities and differences in these rural market systems owing to population density, geographical conditions and other factors.

Many of Indonesia's major cities (e.g. Jakarta, Surabaya, and Bandung) exhibit modern third world city features such as supermarkets, department stores, and other services for elite consumers (123). On the other hand, they suffer the burden of accomodating the increase of population owing to urbanization. Between the city and the rural villages there are small towns of various sizes. The SBEs' establishments of the VMSs of this study are located both in the big cities and in small towns, but none have been established in the village markets.

As has been mentioned in Chapter I, until recently franchising was generally unknown among Indonesian marketing executives. There are indications, however, that some types of vertical relation system have been established between institutions from different stages in the distribution pipeline. For example, there are some nationally or internationally known brand-names used as the main identities of shops or trade establishments, e.g. Kentucky Fried Chicken in fast food, Ziebart and Tuff-Kote in rust proofing. Besides prepared foods (e.g. in restaurants) and rust proofing, many products are distributed by the vertical linkage method, e.g.: Cameras and films, tyres, petrol, electronic equipment, shoes, sewing-machines, cars, motor-cycles, groceries, garments, soft drink, and books.

From the foregoing discussions we can form the following conclusions with regard to the current stage of Indonesia's market structure and in particular its vertical market-system future prospect.

1. It is very likely that all the four types of retail market structure mentioned by Bucklin are present in Indonesia. The periodic market structure and most probably all the early types of market structure are the dominant ones in the rural areas and for products such as perishable produce which are little affected by industrialization.

2. The modern types of market structure are becoming important features of the urban and industrialized sector of the economy. The oligopoly market in manufactured goods forces the participating firms to use more and more modern and efficient distribution methods, and especially vertical marketing systems.

3. The development of new marketing systems suitable to local needs is partly influenced by the general socio-economic conditions. In this respect the government plays an important role, not only (as mentioned earlier) in the case of manufactured consumer goods, but also as to other types of product. Slater, for instance, also proposes vertical integration methods, as well as horizontal integration for agricultural products in LDCs (124). In line with Slater's proposal for vertical integration in LDCs, Currie suggests a franchise type of distribution system, i.e. a chain of small but more or less uniform shops (i.e. with standardization of appearance, arrangement, and service), to solve the chaotic meat distribution system in Colombia (125). In this trade, apart from a few traditional cuts, there is an almost complete lack of standardization in quality, and crudely applied price controls militate against adequate price variations to reflect differences in quality (126). Slater's and Currie's suggestion may be relevant for some of Indonesia's agricultural produce. With regard to the meat trade in Java, Dewey compares it with industrial countries as follows (127).

"In industrial countries developments in transportation and refrigeration have made it as easy or easier to handle carcasses as live animals, and meat in either form can be shipped long distances, held for indefinite periods, and therefore is handled conveniently in large quantities. In Java, since once an animal has been killed the meat must be sold and eaten almost immediately if it is to be consumed fresh, fresh meat can be handled only in small quantities and distributed in a restricted area. Thus, while in an industrial economy it is a matter of choice based on convenience whether the slaughterhouse is placed near the farm area or the urban consumer area, in Java all the transporting and the storing as well must be done while the meat is in the form of live animals, and the slaughtering must be done on a small scale for a very local consumer market.

In America livestock is, in effect, harvested when the animals reach the proper stage of growth. Collecting, transporting, storing, slaughtering, and the first steps of butchering are done by wholesalers. Retailers distribute the meat and do some storing and butchering. In Java animals are stored on the farm until the owner needs money, when they are sold to wholesalers who collect a few animals and transport them. The retailers then handle the

dispersing, all the slaughtering and butchering, but almost no storing. This is one of the clearest cases where modern technology has allowed a complete reorganization of the marketing patterns of a particular type of good."

Unfortunately, no comprehensive study has been found that would enable us to pinpoint the detailed structure of the current stage of the Indonesia's distribution system, both by product and by other types of market segmentation.

4. The current stage of modernizing Indonesia's distribution suffers from various problems characterizing LDCs economic development, such as, development gaps, lack of equity, non-diversified exports, persistent dualism, monopolistic power, and dependent structures. Dholakia's analyses on these LDC's marketing development problems (128) and some of his views and others have been discussed earlier.

5. Developing vertical marketing systems requires a capability to "manage" other organizations. It is the skill and know-how to manage not just an organization but a superorganization (129). These "interorganization management" skills and know-how are very likely minimal among the majority of traditional Chinese businessmen and indigenous traders (e.g. small-scale Javanese traders). As has been discussed in Chapter I, the Chinese and Javanese businessmen may lack the ability to institutionalize their organizations. Furnivall argues that one of the reasons for the ability of the European companies to compete with lies in their superiority in organization (130) Purcell mentions the family system in Chinese business as the factor which limits their organizations (131). Geertz (132) and Dewey (133) describe the Javanese traders' tendency to operate on a small scale. The following is Dewey's explanation about this issue:

"Javanese society lacks large, stable, 'corporate' groups which might serve as a basis for sustained large-scale economic cooperation. There are no clans, age grades, or castes; and the neighbourhood groups, social classes, and other sodalities do not join people into mutually exclusive groups set in opposition to other similar groups. Kin ties are too diffuse to make the extended family an effective group, so the nuclear family is the almost universal economic unit (134)."

It is therefore entrepreneurs or companies with foreign marketing expertise that will be the spearhead in the development of VMSs in Indonesia. They may have developed the skills and knowledge to manage a somewhat complex organization, e.g. the ability to use business techniques which enable someone to go beyond the limit of interpersonal and individual relations. The government regulations to separate manufacturing and trading activities and to confine the

trading sectors in the hand of Indonesians may enhance this process.

6. It seems that rural areas need a distribution system which is markedly different from modern types of distribution. The development of VMS will therefore start primarily in the urban areas. The market size, density, distance, and other socio-economic factor of rural areas may prevent both the distributor and the consumer in these areas from changing over to modern types of trading (135). Bucklin writes that the general-store system, which is an early type of retailing, survived in some rural areas of the USA up to the middle of the twentieth century in a manner not fundamentally different from its original status (136). There may, however, be vertical linkage systems connecting the urban and rural areas, such as that discussed by Slater and Currie and mentioned earlier, but these are of the backward linkage type, namely the rural areas are the producers and the market itself is in the urban areas (137). A comparative analysis of the characteristics of Java's peasant markets and marketing as compared with a modern western market model, as presented in Table II.7, may clarify this point. This analysis is loosely based on Dewey's description of Java's peasant market in the 1950's. More recent research (in 1980) by Glen Chandler confirms that small scale trading and periodic markets are important features of village life in rural Java (138). Because there are some socio-economic changes in Java's rural areas, as described by Collier and others (139) and mentioned earlier, the obstacles to modern distribution methods entering this market may gradually decrease, but it is beyond the scope of this study to forecast when the modern type of distribution system will eventually operate in the current rural areas. On the basis of its fundamental structure, i.e. a combination of large and small business operation advantages, VMSs can serve a more isolated areas than some other modern types of retail/distribution methods, e.g. department stores and supermarket. For example, in one of the VMSs studied, about half of the establishments are located in towns which can be considered small, such as Sukabumi, Tegal, Jember, and Bukittinggi (140). All of the VMSs studied have channel members in small towns such as mentioned above.

TABLE II.7

THE CHARACTERISTICS OF JAVA'S PEASANT MARKET AND MARKETING
AS COMPARED WITH THE MODERN WESTERN MARKET MODEL

ASPECTS	MODERN WESTERN MARKET AND ITS DISTRIBUTION SYSTEM	JAVA'S PEASANT MARKET (1950's) AND ITS DISTRIBUTION SYSTEM
1. Density and distance characteristic	The concentration of: <ul style="list-style-type: none"> - Production - Consumers (urban) - Market places 	The scattered nature of <ul style="list-style-type: none"> - Production, e.g. small farms and cottage industries - Consumers (rural) - Market places
2. Demand characteristics	<ul style="list-style-type: none"> - A demand for standardized goods owing to the value of time - Generally well-off and literate 	<ul style="list-style-type: none"> - Lack of demand for standardized good owing to the time consumers have to inspect and to bargain - Generally poor and illiterate
3. Scale characteristics of distribution system	A need to operate with scale of economies in order to be efficient and therefore survive	A necessity to operate on a small scale owing to the lack of capitals and skills, the low purchasing power of each consumer, and low cost of labour
4. Physical distribution characteristics	<ul style="list-style-type: none"> - A need to mechanize production, handling and transportation of products - Excellent physical distribution facilities 	<ul style="list-style-type: none"> - Abundant and cheap labour leads to the total task being broken down into a series of much smaller tasks, each of which can be done by a single person, or a small group - Poor physical distribution facilities
5. Conclusion on distribution system for rural areas	This modern system cannot operate in a poor, scattered market and with small lot of buying behaviour	Peasant traders can establish themselves in poor and scattered areas; they need little capital, and they will be able and willing to continue operating though the returns are small. This means a wider spread of services to remote areas

CHAPTER III THE DESCRIPTION OF THE VERTICAL RELATIONSHIP

A. INTRODUCTION

In this chapter the relationship between the distributors (i.e. retailers and wholesalers) and the suppliers (the large firms) is described and analysed. As has been mentioned earlier, a VMS relationship has three main characteristics; namely, first, it is a long-term relationship; second, it is a vertical relationship; third, it covers many aspects. There are many ways of describing a relationship system, for instance, according to the degree of intimacy, formal-informal, time horizon, and scope of activities covered. One way to characterize a vertical relationship is by describing the type of parties comprising the relationship, e.g. individuals, organization, and nationality. Another important dimension is the vertical-horizontal or symmetrical-asymmetrical relationship characteristic. The following are some examples of the various types of relationship on the basis of those two foregoing dimensions, namely the type of parties comprising the relationship and the horizontal-vertical dimension (see Table III.1).

Although a VMS is basically a relationship between two organizations/companies, there are some possible similarities with other types of vertical relationships, for instance with a patron-client, a central-periphery, or an employer-employee. It is hoped the following brief exploration about some of the vertical relationships mentioned above may serve as a basis for analysing the VMS-type of relationship, and will therefore clarify some of the most important characteristics underlying most VMSs.

TABLE III.1

SOME EXAMPLES OF HORIZONTAL-VERTICAL RELATIONSHIP SYSTEMS

Parties Involved	Horizontal/ Symmetrical	Vertical/ Asymmetrical
Between individuals	Friends	Patron-client
Between organizations	Business associations, cartels	VMS, ancillary systems
Between nations	United nations, economic communities	Central-periphery, colonialism
Between individual and organization	Partnership	Employer- employee

B. PATRON-CLIENT AND VMS RELATIONSHIP

A patron-client is an interpersonal relationship. According to Scott and Kerkvliet, a patron-client link is an exchange relationship or instrumental friendship between two individuals of different status in which the patron uses his own influence and resources to provide for the protection and material welfare of his lower-status client and his family who on his part reciprocates by offering general support and assistance to the patron, including personal service (1). This type of relationship is found typically in Latin America, Southeast Asia, and the Mediterranean areas (2). There are many writings on the patron-client relationship, for instance those by Scott and Kerkvliet (3), Scott (4), Hall (5), Eisenstadt and Roniger (6), describe this system in its original setting which is among peasant communities. Eisenstadt and Roniger mention, however, that patron-client phenomena are present in modern societies. They write of the widespread of patron-client relations in modern society as follows:

"...patron-client relations were not destined to remain on the outskirts of society or to disappear with the development and establishment of democratic or authoritarian regimes or with economic development and modernization or with the development of class consciousness among the lower strata; and that while any single type of patronage, as for instance the personal type semi-institutionalized kinship-like personal dyadic patron-client relationship, may disappear under such conditions, new types of such relations may appear, and may be found, in a great variety of forms, in different levels of economic development and types of political regimes, and seemingly performing important functions within such more developed modern frameworks (7)."

The same view is held by Hall. He writes that the influence of patron-clientage is felt over a much wider area than its originally rural settings (8). It plays an important role in providing linkages between urban and rural power structures and serves as an avenue for social advancement. For example, networks of mutual personalized obligation are important vehicles of social mobility in Brazil (9). The author found that the position as retailers or wholesalers in the VMSs studied serves not only as a source of living for the core family of the distributors but also as a vehicle to provide employment for distant family members and friends. Those involved in this VMS networks of relations, e.g. distributors and field supervisors, have been able to exploit the opportunity of providing employment for their clients. For example, a field supervisor has helped a distributor to recruit a trusted assistant. This new employee is one of the field supervisor's family and also his client. The next task of the patron is to guarantee the good behaviour of his client. A field supervisor told of a case where he advised

the employer not to promote his client to a more demanding job because he considered the client not yet ready.

The seriousness of the unemployment and underemployment problem in Indonesia, as mentioned in Chapter I, may have been reflected in the distributor's opinion with regard to the reasons for engaging in the current business activities. As has been described in Chapter I in this study, 77 distributors in five VMSs have been interviewed by using questionnaire B. Question no 12 in this questionnaire (for short Q.B, 12) asks the distributor to rank the various possible objectives listed with regard to their concern in starting their entrepreneurial careers. The main consideration of the distributors is 'to ensure employment', followed by other more entrepreneurial reasons such as 'to do what I wanted to' is second, 'to make more money' is third, 'to avoid working for others' is fourth, and finally 'to build organization'. A detailed picture of the scores and ranking on this issue is presented in Table III.2, Reasons to Engage in Business Occupation.

On the basis of data gathered and analysed in this study, we may conclude that the main function of a VMS patron in Indonesia seems to be the provision of employment (10). Of course not every retailer or supplier's representative took a patron's role.

TABLE III.2
REASONS TO ENGAGE IN BUSINESS OCCUPATION (Q.B,12)

	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Row Rank
1. To do what I wanted to	19	6	2	1	-	-	2
2. To avoid working for others	7	12	2	-	2	-	4
3. To make more money	15	10	4	2	1	-	3
4. To build organization	1	2	2	3	-	1	6
5. To ensure employment	22	14	1	2	1	-	1
6. Others	7	6	2	1	-	-	5

Notes : Q.B, 12 means that the table is obtained from analysing the result of the Questionnaire B. question number 12. This type of notation is used throughout this writing.

Also, not every distributor regards the supplier as his/her patron. With regard to the latter, the income dependency of the distributors and the degree of supplier's stake in distributor's product-mix may serve as an illustration of the supplier's dominant role in the distributor's life. The matrix relating to the distributors' source of income and to their supplier's stake in their product mix is presented in Table III.3.

TABLE III.3

DISTRIBUTOR'S SOURCES OF INCOME AND MAIN SUPPLIER'S
PROPORTION OF STAKE ON DISTRIBUTOR'S PRODUCT-MIX
 (Q.B,38 and Q.B,11)

	Supplier's Stake						Row Total	
	Exclusive 100%		Large 40 - 99%		Small < 40%			
	x	%	x	%	x	%	x	%
Distributor has other income	22	28.6	7	9.0	5	6.5	34	44.2
Distributor does not have other income	34	44.2	2	2.6	7	9.1	43	55.8
Column Total	56	72.7	9	11.7	12	15.6	77	100.0

Chi-square = 4.69473

Significance = 0.0956

Cells with E.F. (i.e. expected frequency) < 5 = 16.7%.

From Table III.3 we can conclude that between 44.2 per cent (F=34) and 46.8 per cent (F=36) of distributors have no other income outside the establishment studied, and that they depend to a large extent or even 100 per cent on the main supplier as their source of product. We may consider that in terms of income these distributors are very dependent on the main supplier. Thus, suppliers may play the patron's role for this group of distributors.

There are, however, other factors which have to be analysed in order to conclude whether or not the supplier plays a patron's role. One great obstacle to a dominant supplier linking with the distributors on the basis of an interpersonal relationship is that there is not always one supplier's executive who can fully represent the supplier's powerful image and keep continuously in touch with the

distributors. There is a tendency to delegate some activities to lower levels of the organization's hierarchy, and also a good field supervisor may eventually be promoted to a level that prevents him from preserving close relationships with distributors. A young field supervisor has more difficulty in being accepted as representing the supplier as a patron than his predecessor. Some of the distributors have reluctantly admitted that they have some difficulties in dealing with their main supplier because the supplier's representatives are 'employees' while they are owners.

Another important finding derived from Table III.3 is that a substantial number (i.e. 28.6 per cent) of the distributors who are under exclusive distributorship arrangements with suppliers have other sources of income. This means that a sense of independency of income prevails among the distributors under exclusive dealership within this group. In terms of income independency this group differ markedly in their independence from the group discussed earlier, and in particular from the distributors who are under exclusive dealership and have no other income (i.e. 44.2 per cent). Thus a VMS may accomodate both the entrepreneur with the urge to have an independent source of income and also one without this independent attitude. A further analysis of the distributor's independent behaviour/attitude is discussed in the following section, namely the horizontal and vertical aspect of VMS relationships.

A summary of the main features of the patron-client relationship is given by Eisenstadt and Roniger and is presented in Table III.4.

TABLE III. 4BASIC CHARACTERISTICS OF PATRON-CLIENT RELATIONS

- (a) Patron-client relations are usually particularistic and diffuse.
- (b) The interaction on which these relations are based is characterised by the simultaneous exchange of different types of resources - above all, instrumental and economic as well as political ones (support, loyalty, votes, protection) on the one hand, and promises of reciprocity, solidarity and loyalty on the other.
- (c) The exchange of these resources is usually arranged in some sort of 'package-deal'-i.e. none of these resources can be exchanged separately, but only in some combination which includes each type.
- (d) Ideally, a strong element of unconditionality and of long-range credit is built into these relations.
- (e) Closely related to the preceding is the strong element of interpersonal obligation that is prevalent in these relations - an element often couched in terms of personal loyalty or reciprocity and attachment between patrons and clients - even if these relations are often very ambivalent. This element of solidarity may be, as in the restricted primary relationship of the classical type of patronage, very strong or, as in many of the more modern political machines, very weak - but to some degree it is to be found in all of them. It is often very strongly related to conceptions of personal identity, (above all of personal honour, personal value or face-saving) and of obligations, and it is also evident in the presumed existence in such relations of some, even if very ambivalent, personal 'spiritual' attachment between patron and clients.
- (f) At the same time, relations established between patron and clients are not fully legal or contractual; they are often opposed to the official laws of the country and they are based much more on 'informal' - although very strongly binding - understandings.
- (g) Despite their seemingly binding, long-range, almost (in their ideal portrayal) life-long, endurance, patron-client relations are entered into, at least in principle, voluntarily, and can, officialy at least, be abandoned voluntarily.
- (h) These relations are undertaken between individuals or networks of individuals in a vertical fashion (the simplest manifestation of which is a strong dyadic one) rather than between organised corporate groups; and they seem to undermine the horizontal group organisation and solidarity of clients and patrons alike - but especially of the clients.
- (i) Last and not least patron-client relations are based on a very strong element of inequality and of differences in power between patrons and clients. The most crucial element of this inequality is the monopolisation, by the patrons, of certain positions which are of crucial importance for the clients - above all, of the access to the means of production, major markets and centres of the society.

Source: S.N. Eisenstadt and L. Roniger. Patrons, Clients and Friends: Interpersonal relations and the structure of trust in society. Cambridge University Press, Cambridge, 1984, pp. 48-49.

C. THE HORIZONTAL AND VERTICAL ASPECT OF VMS RELATIONSHIPS

It is not clear at this stage whether some VMSs in LDCs have consistently adopted the important characteristics of patron-client relationships, which according to Scott and Kerkvliet are inequality and diffuseness of relationship (11). Inequality of relationship in a patron-client relationship is explained by Scott and Kerkvliet as follows:

"...patron and client are not equals. The basis of exchange between them both arises from and reflects the disparity in their relative wealth, power, and status. A patron is most often in a position to supply goods and services unilaterally which the potential client and his-family need for their survival and well-being...While a client is hardly on an equal footing with his patron, neither is he entirely a pawn in one-way relationship. If the patron could simply issue commands, he would have no reason to cultivate a clientele in the first place. His need for a personal following which can be mobilized on his behalf requires some level of reciprocity. Thus, patron-client exchange falls somewhere on the continuum between personal bonds joining equals and purely coercive-bonds (12)."

It was first expected that since the distributors were in a vertical or asymmetrical type of relationship with the supplier, the former would need the latter's favours and the former would consider the latter to be at a higher level. This asymmetrical aspect assumption is in line with the inequity characteristic of a patron-client relationship as described above.

It should be clear at the outset that there are two kinds of relationship between suppliers and their distributors. The first type of relation is between the supplier and the whole of the distributors as a group. At this level of relationship (particularly if the distributors are organized as a union) it can be assumed that the relationship is symmetrical. This is particularly true if the supplier has no other means to contact with the end-consumers except through this group of distributors. The second type of relationship is between a supplier and an individual distributor, and this study mostly analyses this second type of relationship. At this level of relationship, a supplier who in a VMS usually has many distributors, may have developed an asymmetrical relationship with the individual distributor. Hunt and Nevin write as follows with regard to the franchisor-franchisee relationship:

"The franchisor-franchisee relationship is essentially a channel of distribution with a unilateral dependency relationship. The franchisor, being the strong channel member, has coercive and noncoercive sources of power that can be exercised to control the franchisee...(13)."

In this study, the above assumption has been analysed with various approaches. The following is one of the approaches used. The relationship between the distributors' dependence and their perceived position towards the supplier has been measured by asking and correlating the following two questions (see Q.B, 21):

(1) How much help do you want from your supplier?

(2) And in your opinion, how much will the supplier help you?

It is assumed that those whose want for help is greater than their opinion of the supplier's future help are in a highly dependent situation. At the other extreme, there are distributors who consider that they do not want much help from the supplier but they think that the supplier will help them more than is needed. In other words they think that the supplier needs them more than they need him. The following Table III.5 summarized this finding.

TABLE III.5

DISTRIBUTOR AND SUPPLIER HELP INTERDEPENDENCY

(Distributor's perception, Q.B, 21)

- The supplier needs me more than I need him	:	6.5 %
- The supplier and I need each other equally	:	37.7 %
- I need the supplier's help more than he does mine	:	40.3 %
- I desparately need the supplier's help	:	15.6 %
		<hr/>
- Total		100.0 %

From Table III.5 we can conclude that 37.7% of distributors do not feel that any inequality with the supplier exist. Few distributors (i.e. 6.5%) feel that they need less than the supplier needs them. On the other hand, about 55.8% feel that they expect more help than the supplier will provide. In this group, some (i.e. 15.6% of the total) feel that there is a large gap between what they need and what they think the supplier will give. Unfortunately an objective view cannot always be obtained. Some may have strong emotions with regard to these two related questions, for instance some may be very cynical about their supplier's help, and some make use of the interview in the hope of their complaints being relayed to the supplier. Thus a fully balanced view about this aspect from all of them cannot be expected (14).

An indirect approach to measure the position or level of the supplier has been used. 'Father' and 'King' have been used

as the symbols to represent a higher level, and 'friend' and 'distant neighbour' an equal level. The distributors were asked to choose one of these symbols to describe their suppliers (see Q.B, 54) (15). Also, the distributors were asked to estimate whether in most of their transactions the suppliers treated them as children expected to obey, or as adults encouraged to participate (see Q.B, 57). The finding is summarized in Table III.6, Horizontal and Vertical Relationships.

TABLE III.6

HORIZONTAL AND VERTICAL RELATION

(Distributors' perception)

Supplier Treated Distributor as:

Supplier's Position	A Child		An Adult		Row Total	
	x	%	x	%	x	%
Above	16	20.8	30	39.0	46	59.7
Equal	15	19.5	16	20.8	31	40.3
Column Total	31	40.3	46	59.7	77	100.0

Chi-square = 0.91561
Significance = 0.3386

It is somewhat surprising that a considerable section (40.3 per cent) of the distributors consider that they are on an equal level with their suppliers (See Table III.6, Row Total). As has been mentioned earlier, in an asymmetrical or vertical relationship it is expected that probably most of those in the dependent or weak position will consider that those in the more powerful position are above them or unequal. The chi-square and significance level calculations (chi-square = 0.91561 and significance level = 0.3386) indicate that there is no significant difference between those who consider the supplier to be above them and those who consider themselves equal in terms of their perception of the supplier's treatment (i.e. as towards a child or an adult). This means that those distributors who consider the supplier to be above them do not always consistently perceive that the supplier treats them as children. Thus we can conclude that in a VMS a great many of the distributors do not always perceive the existence of an asymmetrical relationship. The study reveals that a considerable proportion of distributors (i.e. 40.3%) consider themselves to be in an equal position with the supplier and

and also a considerable proportion of them (i.e. 59.7%) consider that the supplier treats them as adults.

It may be suspected that in a VMS with a greater supplier's influence, or tight control, more distributor will consider that the supplier's position in the relationship is above them and that the supplier treats them as children. This study analyses five different VMSs with various degrees of supplier's influence. There have been no significant differences among those various VMSs studied with regard to these two issues (see Table III.14). A more detailed analysis about the characteristics of these VMSs is presented in the later part of this chapter.

A further analysis from Table III.6 reveals that 20.8 per cent have answered consistently that they are not only on an equal level with the supplier but also that the supplier treats them as adults. Surprisingly, an equal number of distributors (i.e. 20.8%) have consistently taken the opposite view, namely that the supplier is in a higher position and treats them as children.

The following are some of the distributor's comments with regard to their positions and roles in relation to their main suppliers:

1. Those who feel that the supplier is in a higher position:

- "My status is like a soldier's" (case 1011)
- "All [Supplier's] orders have to be carried-out" (case 1025)
- "I am told what to do, it is like being someone in the crowd" (case 1057)
- "[The supplier] instructs if the sales drop" (case 2036)
- "[The supplier] presses me" (case 2121)
- "There is a lot of bitterness working with this supplier. He seeks high sales by pressing the wholesaler, and subsequently the wholesaler presses me. Also the products are out of fashion. Once I thought of suggesting a way out, but on second thoughts I preferred to think of other products [which are from other suppliers] which might give me a big profit" (case 3047)
- "It is like a superior with his subordinate" (case 5019)
- "On many occasions the supplier forces us" (case 5055)
- "Honestly, it is like a boss with his subordinate, and not as between partners" (case 7063)
- "All that I do is based on the supplier's instructions" (case 7077)
- "This [i.e. supplier treats him as a child] happens quite often nowadays. There are many regulations and memos" (case 7081)

- "The supplier gives me a lot of good things" (case 7144)
2. The distributor feels that he/she is on an equal level with the supplier:
- "We are partners. The supplier provides me with facilities and products and I do the selling" (cases 1057, 7112, and 7126)
 - "We respect each other" (case 5055)
 - "We trust each other" (case 7077)
 - "I wouldn't call the supplier a king, that is too extreme. We are like close friends. He gives me the chance in the hope that we can be of benefit to each other" (case 7081)

From the foregoing discussion we may classify three types of VMS relations on the basis of the distributors' perceptions with regard to the horizontal or vertical relationships with their main suppliers.

(1) The pure vertical relationships

There are 20.8% of the distributors belong to this group. In this group the distributors consider the supplier to be on a higher level, and correspondingly they think that the supplier treats them as children who are expected to follow. Thus, the supplier may successfully develop a patron-client type of relationship with this group.

(2) The pure adult relations

There are 20.8% of the distributors belong to this group, in which they consider the supplier to be on the same level as themselves and correspondingly they think that the supplier treats them as adults by encouraging participation. Thus, we cannot expect a patron-client type of relationship to have been developed between the supplier and distributors.

(3) The situational type of relations

There are 48.5% of distributors seem to have mixed perceptions with regard to their relationships with the supplier. First, some of them (i.e. 39.0 per cent) thought that the supplier was in a higher position, but he treated them as adults and encouraged their participation. Secondly, about 19 per cent thought that they were on an equal level with the supplier, but the supplier treated them as children who were expected to follow. One possible explanation is that their level of relationship and the way the supplier treats them may vary according to the situation or aspects such as what has been experienced by cases 1057, 3047, 5055, 7077, and 7081 whose comments have been quoted earlier.

A situational type of relationship was described by one of the most successful distributors. He was praised both by the supplier and by other fellow distributors for his outstanding entrepreneurship. The following are his comments with regard to the supplier's role and the way the supplier treats him:

"The first role [of the supplier] is as a father, and then as a close friend. If I do something unproductive, I expect the supplier to push me. At the operational level, both of us have the same interest, namely profit. [The Supplier treats him] both as a child and as an adult. Most often, however, I was encouraged to participate." (case 7200)

In some situations, such as a drop in sales, and in some important aspects, the supplier requires the distributors' conformity, while in other situations, such as many of the activities in dealing with the management of the distributor's personnel and resources, the supplier treats them as adults instead of as children.

D. THE FORMAL AND INFORMAL ASPECT OF RELATIONSHIP

Scott and Kerkvliet compare the patron-client relationship and the employer-employee as follows:

"Unlike purely formal authority whose relations with subordinates is regulated by impersonal controls or explicit contractual ties which specify the nature of reciprocal services owed, the patron and client share an open-ended set of obligations to one another. Such a strong 'multiplex' relation...covers a wide range of potential exchanges (16)."

An employer may, however, also be a patron but beyond the category of employment (17). In Japan, where employment is characterized by ringgi system (decision making by consensus), life time employment, seniority system, management based on collectivism or paternalism, and harmonious human relations (18), we may expect that the employer-employee relations are closer to patron-client relation characteristics than are the western type of employment relations, where the terms of the exchange are governed in large part by impersonal regulations and legal contracts (19). Silver explains employer-employee relationships as follows:

"The employer-employee relationship is a primal form of vertical integration. In the employer-employee relationship, what is purchased is not a specific outcome (or operation), that is, the results of the labour process, but an agreement on the part of the

employee (the labour source) that in return for a specific contractual remuneration he will place his labour power, ...his willingness to accept authority, at the disposal of the employer for a given period subject to a permitted range of uses (20)."

Theoretically, in the Western type of VMS the terms of the exchange are similar to the Western type of employment, as mentioned above, namely governed in large part by impersonal regulations and legal contracts. As against an employer-employee relationship, what is purchased in a VMS is largely a specific outcome, such as sales or profit, and not distributors' labour power as in the case of employees explained above by Silver.

With regard to the basis of their relationship with the main supplier, the distributors in the VMSs studied have ranked 'a written contract' as the first and 'a long history' as the second, with a marked leaning to the first. A detailed picture of the distributors' view in this aspect is presented in Table III.7, Distributors' Views About the Basis for Their Current Relationship with the Main Supplier.

TABLE III.7
DISTRIBUTORS' VIEWS ABOUT THE BASIS FOR
THEIR CURRENT RELATIONSHIP WITH THE MAIN SUPPLIER

(n=77, figures in per cent, Q.B, 48)

The Basis of Relations	1 st. choice	2 nd. choice	3 rd. choice
1. A written contract which spells out the rights and duties of each party	75.3	-	1.3
2. A long history of relationships	22.1	10.4	-
3. A long term sales contract	1.3	1.3	1.3
4. Supplier's participation in terms of shares ownership	-	-	-
5. Supplier's investment in fixed costs	-	5.2	1.3
6. Other reasons	1.3	6.5	-
Missing	-	76.6	96.1
Total	100.0	100.0	100.0

The high percentage of the answer (i.e. 75.3 per cent in the first choice) that the basis of the relationship is a written contract may come from the fact that the supplier uses it as the basis for quite a number of the regulations and memos which are circulated. For example, during the interview a respondent showed a new memo reminding him and his fellow distributors to be more punctual in submitting some reports, as requested in the agreement. The importance of a written agreement is stressed not only by the supplier (who perceives himself to have a higher risk than the distributor), but also by the distributors. About 75 per cent thought that a written form was important, at least as an aide-memoire for both parties. Some of them (i.e. 9.1 per cent) went further and considered that there should be a third party, such as the government, playing a part in this formal agreement. A smaller proportion (i.e. 24.7 per cent) would rather not have a written form of agreement. In some cultures in which the socio-cultural condition is capable of providing a social punishment for dishonesty, for instance among some of the Indonesian Chinese business communities (21) and Japanese (22), a verbal agreement is sufficient.

Tsurumi explains the Japanese views and practice with regard to the continuity of contractual relationships as follows:

"Unlike in the U.S. where only written contracts are considered enforceable and where verbal gentlemen's agreements are frequently broken, verbal and psychological contracts in Japan - as in any other traditional society - are considered to be as binding as written contracts. The promise behind a handshake in Japan can be broken only at great peril. Japanese society imposes social sanctions against those individuals and firms that renege on contracts which tend to be more swift, efficient, and unforgiving than any court penalties. This is not because the Japanese people are more honorable than Americans, but rather because contracts between individuals or firms in Japan are always assumed to be continuous (23)."

According to Dewey business ethics are much harder to enforce among the Javanese (24). The business practice of Javanese traders contrasts sharply with the Japanese and the Chinese. The following is Dewey's explanation about the Javanese social structure which leads to the contrast with the Chinese and, thus, with the Japanese described above:

"[Javanese]traders are members of a community which is numerically larger and socially more loosely organized. Each small producer sells to whatever carriers happen to be in the area, and the carriers sell in any one of several markets. Within each market are numerous traders to whom the goods may be sold, and they in turn have a wide variety of customers. Thus no lasting tie can be established between buyer and seller on the basis of the commercial relationship; and because of the diffuse nature of the

Javanese social structure and the size of the community, there are rarely ties of kinship or community between the two to give continuity. This contrasts sharply with the Chinese for whom associational membership determines commercial relations and reinforces them with a whole complex of social ties. The absence of stable ties among the Javanese makes it almost impossible for informal sanctions to be effective (25)."

Bearing in mind the characteristics of VMS described earlier (e.g. long-term relationships, etc.), it may be expected that a Javanese distributor in VMS may develop a sound business practice.

From the foregoing discussion it may be assumed that both suppliers and distributors rely primarily on written agreements as the basis for their relationship. There may, however, be other links used, such as friendship, kinship, and other types of interpersonal bonds. There are attempts by both parties to develop trust and intimacy, in which some of them may fail. Although the word "trust" was often mentioned by both parties as an important foundation in this relationship system, the suppliers relied primarily on modern ways of control, such as various periodic reports, the implementation of a stock-control system, and various types of visits to distributors' premises. In one of the VMS studied the supplier went further by assigning staff to work closely with distributors in financial matters (26). The extent of periodic reports requested by the suppliers in each VMS is illustrated in Table III.8.

TABLE III.8
PERIODIC REPORTS BY VMS
(IN PERCENTAGE OF DISTRIBUTORS MADE THE REPORTS)
(Q.B, 34)

VMS	Daily	Weekly/ Bi-weekly	Monthly	Quarterly	Six- Monthly	Yearly
VMS - 1 (n = 22)	95.5	100	13.6	18	45.5	22.7
VMS - 2 (n = 12)	66.6	83.3	33.3	16.6	41.7	16.6
VMS - 3 (n = 14)	14.3	78.5	14.3	-	-	-
VMS - 4 (n = 15)	13.3	46.6	80	13.3	6.6	6.6
VMS - 5 (n = 14)	14.3	100.0	92.8	7.1	-	-

From Table III.8 we can conclude that most of the suppliers request the majority of their distributors to submit weekly/bi-weekly periodic reports. Some suppliers even ask for daily reports. On the basis of the frequency of the reports requested we can conclude that reports are used as one of the important control mechanism by all suppliers in this study.

Bucklin explains socialization in the channel-distribution environment in terms of business gift-giving (27). According to Bucklin the genesis for this behaviour lies in efforts on the part of businessmen to redress social imbalance. Reciprocity is a fundamental basis for conducting social affairs. In channels, reciprocity consists of service exchanges above and beyond contractual agreements (28). In this study the social aspect investigated is not limited to gift-giving, but in a more broader aspect of interpersonal relations, namely friendliness, warmth, and trustworthiness.

With regard to the social aspect of the relationship, there was a somewhat unfavourable picture. About 64 per cent of the distributors felt that the social aspect of the relations (e.g. friendliness, warmth, and trustworthiness) should be improved. About 22 per cent were unwilling to reveal their feelings about this issue explicitly or were undecided. A minority of about 14 per cent thought that the current social relationship with the supplier was satisfactory.

A respondent summed-up his feelings about the formal and future aspect of the relationship with the supplier as follows: "The current agreement should be altered, because it is unfair. I felt I was on the losing side. Until now I have had an adequate income, but there is no bright future. There will only be a minimum saving for my old age." (case 1039).

Although not all parts of the agreement and formal linkage systems are fully accepted by all distributors, as a whole it has served as a good linkage system as perceived by a considerable section of the distributors. They perceive that there are many advantages to be obtained by being a member of the VMS. For example, about 43 per cent said that without the supplier they would not be able to be the businessmen that they are today. A further description and analysis of supplier's assistance will be presented in due course in this chapter.

From the foregoing discussion we may conclude that besides the formal side of the linkage system, such as the written agreement, reports, assistance, etc., there are some informal or interpersonal factors which may play important roles in creating healthy vertical relationships for some of the distributors. It seems that the informal, interpersonal, or social aspects in the VMSs studied need improvement as is expected by the majority of the distributors. One of the

possible reasons for the poor picture of the informal aspect of the current VMS relationship is that because of too great reliance on the use of formal and 'modern business techniques' approaches. It is, of course, understandable that being a large and modern organization, a supplier relies on the use of modern business techniques, which are partly transferred to the SBEs. Some distributors may have seen the great benefits of these various business techniques, such as the various modern planning and control systems, but some of them cannot appreciate them and consider them to be unnecessary burdens.

It is suspected that the use of coercive power may have contributed to this "strained" vertical relationships. However, no data have been obtained which can tell us whether a 'human oriented' approach with this group has resulted a better or worse long-term situation for both parties. In this study there has been no attempt to take sides in the debate between those who advocate power such as McClelland (29) and those from the participative approach camp such as McGregor (30). These theories on leadership or human behaviour in organization have been developed within the environment of an organization or employer-employee type of relationship. A VMS is, however, basically an interorganization relationship. Thus, some additional factors may have to be taken into account if one is to apply those behavioural theories in organization to the VMS-type of relationships. One factor which will be described in the next section is the dependency aspect.

E. THE DEPENDENT ASPECT OF VMS-TYPE OF RELATIONSHIP

Dependency phenomena, in a broader context, have been described by some writers on LDC economic development for instance by Frank (31) and Dos Santos (32). They belong to what is called the 'dependency' school, or the Neo-Marxist school of 'dependency and underdevelopment' (33). In criticising the modernization school, for instance Rostow and Parsons, the dependency school argued that the underdevelopment of the Third World was not a pre-modern stage, but that it was precisely a consequence and a complement of the capitalist development of the First World (34). According to Todaro, the fundamental thesis of the Neo-Marxists in the relationship between rich and poor countries is that the centre (i.e. the rich countries) is actually inimical to the development of peripheral countries (i.e. poor countries), and that a capitalist development of LDCs is impossible today (35). The purpose of this section is to make use of these theories, cases, and criticisms on dependency in order to compare and analyse the VMSs-type of relationships studied. Unlike the patron-client and employer-employee vertical relationships described earlier, the

component parties in this dependency theories are not individuals but groups such as nations or communities. These theories on dependency have been developed in response to the problem of Latin America's economic development and in particular to the failure of the import substitution industrialization strategy implemented in that region (36).

The most oftenly quoted definition of dependence in this context is written by Dos Santos as follows:

"Dependence is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries expand through self-impulsion while others, being in a dependent situation, can only expand as a reflection of the expansion of the dominant countries, which may have positive or negative effects on their immediate development. In either case, the basic situation of dependence causes these countries to be both backward and exploited. Dominant countries are endowed with technological, commercial, capital and socio-political predominance over dependent countries...and can therefore exploit them, and extract part of the locally produced surplus. Dependence, then, is based upon an international division of labour which allows industrial development to take place in some countries while restricting it in others whose growth is conditioned by and subjected to the power centres of the world (37)."

From the foregoing definition of dependence and together with its supporting cases, arguments, and criticisms, we may draw the following conclusion with regard to the characteristics of vertical relationships in general and their implications for VMS-type of relationship in particular:

1. The dependence situation.

According to Dos Santos, a dependence is a conditioning situation, which is a situation that determines men's limits and possibilities of action and behaviour (38). This dependence situation is created by the dominant parties. There are other terms used to describe these dominant parties, for instance the centre and the metropolis (39), while the weak groups are called the periphery or satellites. In the VMSs studied, the centre is the supplier and the satellite is the distributor.

Merrett Cyriax Associates defines a satellite company as a small firm dependent upon one or two larger companies for a large proportion (more than 50 per cent) of its business (40). One of the important characteristics of a dependence situation, as mentioned earlier, is that the economies of the satellite are conditioned by the development and expansion of others. It will be very unfortunate for the

satellites if the centre is not developing. In the VMS-type of relationship studied, this dependence situation was reflected in the inability of some of the distributors (i. e. 18.2 per cent) to express their wish to grow, because, according to them, growth depends on the supplier's future products and marketing plans. The author has difficulty in measuring the distributors' original or innovative marketing activities and achievement because of this dependence situation. It is very hard to distinguish the distributor's original initiatives in sales and marketing activities. Also, in each VMS the supplier may have his own type and degree of control over the distributor's activities so that comparison between some of the distributor's performance across several VMSs may become meaningless.

In this study the performance of the distributors is partly measured on the basis of the supplier's satisfaction, particularly with the profit produced by the distributor. Both supplier and distributor are concerned with profit. As against the centre-periphery relationships, the primary purpose of a VMS relationship is not the exploitation of the satellites (which causes their underdevelopment), but improving the efficiency of the channel, and placing this marketing system in a better competitive posture vis-a-vis other marketing systems (41). In theory the profit generated through a VMS relationship will therefore be used to enhance the future business of both parties. Unfortunately not all of the distributors surveyed recognized this mutual concern. About 39 per cent of distributors felt that the supplier was concerned more with his own than with mutual interest. However, this requires further analysis before we can conclude that those distributors were 'exploited' in the sense indicated by the dependence theory.

With regard to the "selfishness" of the large firms in franchising Izraeli explains the following disadvantages for franchisee (42):

1. *The parent company may end up having so much control over franchisee that they could dictate policies and practices injurious to a franchisee but not to others in the chain, for the sake of invoking the principle of the greatest good for the greatest number.*
2. *Franchisee may find it necessary to handle a product or service or participate in a promotional program which may prove impractical, unimportant, unprofitable, or even offensive to him.*

2. The self-impulsion development.

There have been fierce criticisms of the view held by the dependence-theory camp that the satellites cannot achieve a pattern of self-sustained and autonomous development. It is

part of the Andre Gunder Frank's first hypothesis that the growth of the satellite is contingent upon the actions of other more powerful nations (43). Frank's second hypothesis is that where a weakening of relations of dependence occurs, we expect development [of the satellites] to take an 'involuted' form (44). Booth argues that there has been independent growth in the Third World (45). Ivar Oxaal and others have tested Frank's ideas as reported in their book "Beyond the Sociology of Development: Economy and Society in Latin America and Africa". Some of the writers in this book, for instance Booth and O'Brien, write that Frank's and Dos Santos' view about 'the development of underdevelopment' or 'involuted' process may not always be true. For instance, O'Brien mentions Cardoso attacks Frank's view because Frank ignores the structural dynamism of the industrialization now being carried out by the multinational corporation in LDCs. According to Cardoso it is possible to have a 'dependent development' (46). For Amin a dependent development means an inappropriate pattern of growth imposed upon the country through its ties with the centre, literally: through its being included in the world capitalist system (47).

In the VMSs studied, a type of 'dependent development' phenomenon may have occurred. As has been mentioned in Chapter II, Mendelsohn makes an analogy between the franchisor-franchisee relationships and the parent-child relationship. As the child grows older, so he/she becomes less dependent and more fiercely independent (48). For some of the distributors in the VMSs studied, the current dependence situation is regarded as a stepping stone towards becoming independent entrepreneurs. One of them said:

"In this VMS the person is developed first, capital later. What the government [of Indonesia] has done, that is first providing the capital, is wrong. I can accept the policy of making someone a puppet and then giving him freedom." (case 7144) (49).

Not all of the distributors have great ambition. One of the supplier's executives classifies distributors in two categories; firstly, those who do not have ambition, who are satisfied with the current relationship system, and secondly, those who do have great ambitions and will make use of the supplier's name to exploit opportunities, such as bank facilities, e.g. the soft loans provided by the government (50). Also, this latter group will tend to look for other business with better prospects, such as electronics.

From the cases gathered, the following classification of the distributor's development can be made:

1. The Undeveloped Group

The undeveloped are those who have been in the VMS but have failed to benefit or to become part of the system and thereafter have become employees. The size of this group is

very hard to determine through this study. As has been explained in Chapter I, this study concentrates on distributors who have been at least three years in business and in a VMS. Bearing in mind the high failure-rates in the early years of business ventures (as discussed in Chapter I), it is assumed that the majority of this group cannot pass the three-year criterion used in this study.

The size of this group may roughly be gauged from the following case. In one of the VMS 61.4 per cent of the distributors were of less than 3 years duration, which it means a high percentage "failure" in this VMS. No exact reasons have been recorded for the turn-over. According to one of the supplier's executives, the following are some of the major reasons: financial dishonesty, lack of entrepreneurial drive, and the pursuit of other opportunities. On the other hand, one VMS claims a very low distributor turn-over.

The following figures tell us about the planned changes in the form of the relationships between the supplier and the distributors in the sample: 9.1 per cent of the distributors would be demoted, 80.5 per cent would remain as they were, and 10.4 per cent would be promoted to other categories or types of relationship. From the 9.1 per cent demoted partly (i.e. 2.6 per cent) would be discontinued.

Some attempts have been made to interview some of the 'drop-out' distributors. This additional search reveals that not all of them failed to continue to be members owing to lack of entrepreneurial spirit, because some of them went to similar types of business or other businesses. But some give up and became employees.

Mayer and Goldstein write about the alternating occupational career between manual work, white collar employment, and business ownership among small business retailers and services in the USA as follows:

"...an important aspect of social mobility in American society consists of repeated crossings between white-collar, blue-collar, and self-employment, with relatively little permanence at any level. This is further borne out...by the fact that many of the newly established businesses in the sample eventually closed, and the owners returned to manual employment (51)."

This study did not analyse whether there have been differences among the VMSs with regard to this "drop-out" issue. Also no data have been found with regard to the social mobility pattern in Indonesia in the trade sector which can be used to compare with Mayer and Goldstein's statement mentioned above. With the data obtained, it is possible to conclude that an undeveloped group in the VMS may exist, particularly among those who have failed to be in the VMS and thereafter have

became employees.

2. The Underdeveloped Group

Following Frank's underdevelopment term, those who are in this group felt that they have been 'exploited'. As has been mentioned earlier, about 39.0 per cent of the distributors felt that the supplier was interested only in his own goals. It is, however, not clear whether this group were backward and exploited in the sense that they were worse-off than prior joining the VMS as implied in the dependence theory. They may have the same experience as the small firms supplying the giant Toyota company in Japan have. The Japanese small firms perceive that Toyota's policy is 'not to kill, neither to keep alive easily' (52).

The use of excessive coercive power by the supplier may have caused this "exploitation" atmosphere. According to French and Raven, coercive power stems from the expectation of being punished if one fails to conform (53). On the basis of his study among automobiles dealers in the USA Lusch concludes that the dealer will engage in more conflict with the manufacturer as the manufacturer is perceived as being more likely to use coercion (54). According to Bucklin coercion is used by the supplier who seeks control beyond the point where the middleman perceives his sacrifices as exactly balanced by the profits he receives. Beyond this point supplier's authority ends, and soon also distributor's tolerance. Tolerance means the feeling of burden and sacrifice incurred from acceding to supplier authority (55).

The scale of this underdeveloped group may be roughly estimated from Table III.9 Distributor's Independence and Satisfaction. A total of 42.1% are not satisfied with the supplier (i.e. they would not choose the same supplier again if they were to repeat the experience). Part of this group (19.7% of total distributors) have decided to seek additional sources of income besides the business with the supplier under a VMS agreement. Thus the size of the underdeveloped group in the sample studied is estimated as between 19.7% and 42.1%.

Some of those who are not satisfied, however, may still maintain their membership with VMS in order to make use of it for other ventures of their own. In this case they belong to the 'independent developed' group, the characteristics of which are explained in point 4 below.

3. The Dependent Developed Group

This group has the characteristics Amin has described, namely the distributor's growth is inappropriate because it is imposed by the supplier. Those belonging to this group are most likely to have only the one source of income, and this source is exclusively or in very large part controlled by the supplier. As has been mentioned earlier, between

44.2 and 46.8 per cent of the distributors have no other income outside the establishment studied, and they depend to a large extent or 100 per cent on one supplier for their source of products (see Table III.3). They are most likely to belong to this dependent developed group.

Another characteristic of this group is that they are relatively satisfied by belonging to the VMS. As has been mentioned earlier one of the indicators of the distributor's satisfaction with the supplier is his preference to choose the same supplier if he has to repeat the experience. A cross tabulation of distributors' sources of income and their satisfaction with the supplier is presented in Table III.9.

From Table III.9 we can conclude that about 32.9 per cent of the distributors have no other sources of income and are relatively satisfied with the supplier. This group is most likely belong to the 'dependent development' group. Another important conclusion derived from Table III.9 is that there is no significance relation between the sources of income and the satisfaction with the supplier. In other words, there are distributors who are relatively independent in terms of income but are satisfied of being the member of the VMS. This group, about 25 per cent of the distributors, is most likely belong to the 'independent developed' group which its characteristics will be described further below.

TABLE III.9

DISTRIBUTOR'S INDEPENDENCE AND SATISFACTION

	Not Satisfied		Satisfied		Row Total	
	x	%	x	%	x	%
Have other income	15	19.7	19	25.0	34	44.7
No other income	17	22.4	25	32.9	42	55.3
Column Total	32	42.1	44	57.9	76	100.0

After Yates correction:

Chi-square = 0.00741
 Significance = 0.9314
 Missing cases = 1

4. The Independent Developed Group

This group may have benefited most from the VMS-type of relationship. At the early stage of the relationship they may have "sacrificed" their independent spirit by conforming to the vertical system. They recognize the strength and the benefit of the vertical system, and can make use of it to their own advantage. Some of them have been able to delegate many of the activities to their subordinates, in order to be able still to conform with the supplier's requirements, and at the same time devote their entrepreneurial talents, with the skills, knowledge, and reputation acquired from the VMS, to other more independent ventures.

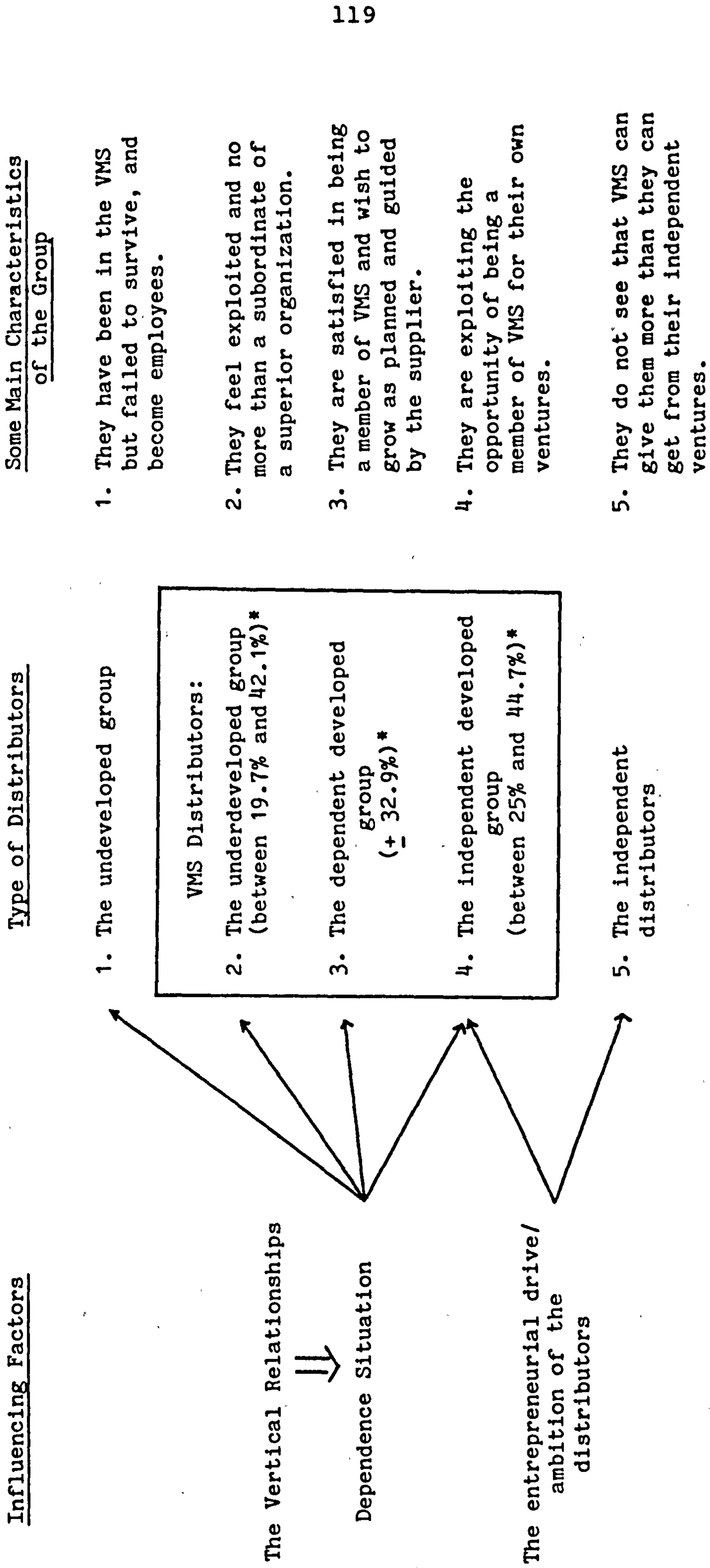
About 30 per cent of the distributors have other business establishments, alone or together with someone else (Q.B,39). It is not clear, however, whether those other establishments are more independent, and whether they are the results of "exploiting" the VMS studied. Some cases have confirmed that some independent entrepreneurs joined the VMS because they perceived the benefit of being associated with it, while at the same time retaining their previous businesses. One major benefit of being in the VMS (which will be further elaborated later) is the possibility of using the supplier's brand-name/trade-name. On the basis of the earlier discussions the size of the 'independent developed' group may be estimated between 25% and 44.7% (see Table III.9).

As has been mentioned above, there are 'drop-out' members some of whom have received very little benefit from the VMS. Part of those who quit the system regard that VMS is not a suitable place for their entrepreneurial drive. There were cases where independent entrepreneurs were lured into joining a more tightly controlled VMS. Some did not want to continue because of the administrative burdens accompanying the system, while others felt that they could make more money by being more independent. This type of independent entrepreneur is outside the four groups mentioned earlier. Their brief encounter with the VMS tells them that it is not their world.

A summary of the dependency and development aspects of the distributors discussed above is presented in Figure III.1, Distributors Dependence and Development.

FIGURE III.1

DISTRIBUTOR'S DEPENDENCE AND DEVELOPMENT



Notes : * The size of the group is estimated from Table III.9.

F. THE CHAIN OF DEPENDENCE

The other aspect of the dependence theory which is similar to the VMS-type of relationship is the chain type of dependence. Frank suggests that we visualize a whole chain of metropolitan centres and satellites, which runs from the world metropolis down to the hacienda or rural merchants who are satellites of the local commercial metropolitan centre but who in their turn have peasants as their satellites (56). This chain of dependence was also noted by those involved in VMS relationship.

In a VMS where sales performance is the primary basis for rewarding those involved, i.e. supplier's managing director down to field supervisor (i.e. the distributor's direct "boss"), and the distributor down to his salesman, this chain of dependence is very much felt. On some occasions the involvement of the "supervisors" was too much for the "subordinate", so that the distributors complained they were no longer businessmen but employees. They wanted the supplier to take into consideration their specific environment, but some helplessly admitted that it was impossible to expect the supplier's national policy to be altered so as to adjust to their situation. McCammon and Little rightly mention that large manufacturers tend to have national or regional market orientation, whereas small resellers are predictably interested in local market conditions (57).

As has been mentioned in Chapter I, eleven field-supervisors, who have the most frequent contact with these distributors, have been interviewed. One of the supplier's field supervisors rightly saw his major role as bridging the gap between the supplier and the distributor. This is how he described his role as one of the chain member:

"A supervisor plays two roles. He is the supplier's man and at the same time the distributor's. My first job is to interpret the supplier's regulations as such that they can be logically implemented within the given circumstances. Thus, a supervisor has to make his own analysis so that it can be accepted by both the supplier and the distributor."

We may expect that sometimes the above supervisor has to take sides in a conflict situation, and the most likely result is that the distributors are on the losing side.

In a long chain of dependence as mentioned above, it seems impossible for one distributor successfully to assert his needs alone, if he is against the policy decided at the top. Todaro writes that in the central-periphery situation 'the Neo-Marxists have no prescriptions beyond revolution' to solve the unbalanced relations (58). This revolutionary action seems impossible in the case of the distributors

studied, because of the following major reasons: firstly, there is no union which organizes distributors, and the relationships among distributors are informal. Secondly, the distributors join the VMS voluntarily, which is not the case in the centre-periphery relations. Thirdly, the surplus labour situation in Indonesia, including those at tertiary education level, gives the supplier a better position. Pfeffer and Salancik write that an abundant labour market has permitted employers to disregard the feelings of the workers. Since there were many wanting to work, the power of an individual worker was severely limited. If the workers were dissatisfied, it was not only because they did not like the organization's policies; in the absence of any power-base and with few alternative jobs the workers had neither the option of voice nor of exit (59).

There are distributors who have skills, capabilities, and facilities (e.g. store location) which the supplier cannot easily obtain from other sources. It is very likely that those distributors who do not have the above mentioned factors may always very much under pressure. It is safe to assume that the longer a distributor develops his business, and therefore his business skills, customer contacts, etc., the greater his chances of becoming indispensable for distributing the supplier's products in a particular market. Thus he becomes less under pressure from the supplier, owing to the supplier's growing dependence on him in that particular market.

With regard to the relationship between power and conflict Bowersox and others write that attempts to utilize power may actually precipitate conflict (60). If a channel member has a low level of control tolerance and another system member attempts to exercise leadership, a situation of stress and conflict will develop (61). Bowersox and others mention four basic processes in the field of organizational behaviour by which conflict may be resolved, namely problem solving, persuasion, bargaining, and politics (62). Emerson suggests four ways for the weak party to cope with an unbalanced relationship, namely withdrawal, extension of power network, coalition formation and emergence of status (63). A further discussion on the power-dependence between the supplier and distributor is presented in the next section.

Pfeffer and Salancik raise an interesting view in this power-dependence issue. They write that the fact that organizations are dependent for survival and success on their environments does not of itself make their existence problematic. Problems arise not merely because organizations are dependent on their environment, but because this environment is not dependable (64). In a VMS-type of relation it is primarily the attitude and the leadership capability of the large firm which will ensure most of the small businesses' success. The dependency situation of the small business will only become a problem, as Pfeffer and Salancik have written, when the VMS leader is not dependable.

Bowersox and others describe the ideal situation of a VMS as follows:

"The essential feature of a vertical marketing system is that the primary participants both acknowledge and desire interdependence. ...The assumption is that the mutual relationship is greater than a non-zero-sum game. In other words, the participants feel that as active channel participants their organizations will be better off than they would be standing alone or participating in a competitive channel. In this sense, the relevant competitive unit becomes the channel system (65)."

The ideal set-up described by Bowersox and others mentioned above does not always prevail. The various problems of franchising discussed in Chapter II illustrate the many deviations from this ideal model. Palamountain devotes his entire book to describing the various interrelations between economic and politics owing to the various types of conflict in distribution in the USA in the 1930's.

In the VMSs studied, some deviations from the ideal model of VMS have been mentioned earlier. One of the possible reasons is the chain of dependence phenomenon as described in this section. It is probably not just this phenomenon, but the whole central-periphery situation may have been directly or indirectly created by some of the members (i.e. the perception of the existence of exploitation, underdevelopment and heavy dependence). Some of the members have, however, benefited from the many attempts to create the ideal VMS relationship. For example, this can be measured from the satisfaction at being in the VMS, for instance by the number of distributors who would choose the same supplier again if they had to repeat the experience.

About 57% of distributors are positively satisfied with their suppliers, while the suppliers, as has been mentioned earlier, plan to demote or expel only 9.1 per cent of distributors. A further analysis of each type of VMS is presented in the next section. It should be noted, however, that the satisfaction of many distributors and suppliers may have been caused by the fact that they have had three years or more of relations.

As has been explained in Chapter I, this study focuses on distributors who have been at least three years in a VMS, one of the assumptions being that their responses are based on adequate experience of the relationship. It has, however, one drawback, namely the exclusion of those distributors who do not meet the three-years criterion, and thus two possible extreme responses are excluded. One extreme response is that these distributors are overjoyed because of the new opportunity as entrepreneurs. At the other extreme, some may feel frustrated by many unfamiliar challenges and tasks.

As has been mentioned earlier, in one VMS there is a high turn-over, which indicates that there is a high incidence of disagreement between the supplier and the distributors in the early part of their relationship. No further analysis has been carried out about this issue in this extreme group.

G. SUPPLIER'S INFLUENCE: THE MEASUREMENT AND THE RANKING OF VMSs.

1. Theories on Power in Interorganizational Relationship

In a VMS the need for a channel leader is inevitable. According to Bowersox and others 'for the channel to function as a vertical system, one of the member firms must be acknowledged as the leader. The leader is typically the dominant firm, and can be expected to take a significant risk position. Likewise, the leader typically has the greatest relative power within the channel' (66). Similar views are held by Stern and El-Ansary. They write as follows:

"In order to achieve effective channel management and thus improved coordination and performance within a channel system, it will be necessary to locate an institution or agency within the system that is willing to assume a leadership role, that is, an organization that will use its power bases to aid in overcoming the spontaneous variability of individual channel member behaviour and to allocate the resources within the system so as to enhance the system's viability (67)."

In short, in a VMS a leader is needed in order to manage the channel. Management is a process involving planning, organizing, and controlling. Management in marketing channels, however, is concerned less with managing the behaviour of individuals and more with managing the behaviour of organizations (68).

The term 'power' has frequently been used to represent a means of achieving goals in this interorganization relationship (69). There is, however, no one universally accepted definition of power. Ryan writes that power is a concept not easy to grasp in all its aspects and levels simultaneously. The boundaries of the concept are not too clear (70). Some other terms such as 'influence', 'authority', and 'control' are used to clarify the boundaries of power, or sometimes to represent power for a particular purpose. For example, Presthus defines authority, influence and power as follows (71):

Authority:

Authority can be defined as the capacity to evoke compliance in others on the basis of formal position and of any psychological inducements, rewards, or sanctions that may accompany formal position.

Influence:

The capacity to evoke compliance without relying upon formal role or the sanctions at its disposal may be called influence.

Power:

When formal position is not necessarily involved, but when extensive sanctions are available, we are concerned with power.

According to Gultinan, Rejab and Rodgers power can be defined as 'control or influence over the actions of others in order to promote one's goals without their consent, against their will, or without their knowledge or understanding (72).' French and Raven define power in terms of influence. Influence, in turn, is defined as psychological change. Psychological change includes not only overt behavioural changes in the target, but also changes in attitudes, opinions, goals, values, and needs (73). French and Raven's definition of power and influence is not the same as Presthus', Gultinan and others' clarification. In line with French and Raven's definition of power and influence Andreasen explains the relationship between dependency, influence and power as follows:

"Dependency is the inverse of influence. A dependent role indicates that influence implicitly or explicitly has been exerted; an independent role indicates that it has not. Influence, in turn, is a function of power (but is not synonymous with it). Power, in this sense, is a basis for influence. The power may never have to be used to be real. For example, a franchise agreement would never have to be revoked to demonstrate its power (74)."

On the basis of the foregoing definition of power, French and Raven offer the concept of sources of power or bases of power (75).

In the analysis of channel relationships the concepts of power developed by Dahl (76), Emerson (77), and French and Raven (78), which originated outside the marketing field, are most often used. El-Ansary writes that there seems to be some tendency in the marketing literature to borrow models and frameworks from other disciplines (79). According to Cavanaugh the study of power and its role within social relationships has been hindered by a literature which is diffuse and an application which has been idiosyncratic to individual needs (80). There is no single-uniform conceptualization of power (81). Cavanaugh offers five distinct conceptual framework of power, namely (82):

- (1) Power as a characteristic of the individual.
- (2) Power as an interpersonal construct.
- (3) Power as a commodity.
- (4) Power as a causal construct.
- (5) Power as a philosophical construct.

In this study the discussion on power is focused on the second framework, power as an interpersonal construct. The term 'interpersonal' may, however, have to be broadened into 'interorganizational'. It is true that in a small business enterprise the owner-manager is the enterprise itself, but in a large firm, e.g. the supplier, there are a great many impersonal situations, and in this interorganizational relationship it is very likely that more than one person may represent the large firm, depending on the aspect or activity being dealt-with. (The dominant role of the small business owner-manager has been investigated in this study (see Q.B,2), and 71.4 per cent of the SBEs say that only one person is in command of the firm's strategic affair, while 24.7 per cent say that more than one person are actively managing the strategic affairs of their company). Thus we can conclude that a supplier and distributor relationship in a VMS will probably comprise more than two persons. This phenomenon may influence the interpersonal aspect of a VMS, such as the need to use a more formal and written communication to cope with the many interaction needed.

The concepts of relationship developed in other fields (such as psychology, sociology, and politics) have been widely used to analyse this channel of distribution relationship. As has been mentioned in Chapter I, this study focuses on the relationship between each SBE and its main supplier. Also, as has been mentioned earlier, there is no organization or union representing these distributors and thus there will be no interorganization relationship between the distributors as a group and the supplier analysed.

2. The Measurement of Supplier's Power or Influence

In this study the measurement of the degree of a supplier's power and thus a distributor's dependence, is based on the concepts and methods used earlier in this field. Emerson writes that power resides in another person dependency (83). The dependence of actor A upon actor B is (1) directly proportional to A's motivational investment in goals mediated by B, and (2) inversely proportional to the availability of those goals to A outside the A-B relation (84). Emerson uses the term 'goal' in the broadest possible sense to refer to gratifications consciously sought as well as rewards unconsciously obtained through the relationship (85). Some studies, such as those by El-Ansary (86), and El-Ansary and Stern (87), investigate Emerson's model in the channel relationship.

Etgar measures a supplier's power over a dealer by the degree of the former's control over the latter's marketing activities (88). According to Heskett et al. in interorganizational systems, such as channels of distribution made-up of individually controlled firms, a formal hierarchy of authority and responsibility is generally absent. In its place there may be an implied organization structure based on informal authority networks which are recognized by the members of the system. A major source of informal authority in such systems is likely to be the amount of power which a particular member is perceived to have relative to other members of the same system (89). The use of perceived measures of channel power is justified and clarified by many writers such as Etgar (90), Hunt and Nevin (91), Childerley (92), and El-Ansary and Stern (93). Hunt and Nevin explain this method of measurement as follows:

"Power does not refer to the objective ability of one individual or group to control or influence the behaviour of another, but rather to the potential ability of the controlling or influencing agent as perceived by the controllee or influencee (94)."

On the basis of the foregoing discussion, the power of the supplier in this study refers to his ability, as perceived by the distributor, to control the latter's decision variables. The term 'influence' is used throughout this study to represent the use of power as perceived by the target, and in questionnaire B it means distributor's perceptions with regard to the activity of the supplier to use its sources of power. The perception of the distributor on the supplier's influence, and thus the use of power, is recorded in questionnaire B, question number 49 (for short Q.B, 49).

The extent of the supplier's power would seem to be related to the degree of control he is perceived to have over these key decision or activity areas. There are nineteen key decisions or activities in the distributor's business used as the indicators (see Q.B, 49). These variables have been obtained during a preliminary survey. Each distributor indicates the degree to which he is or is not free to decide, and the extent of the supplier's freedom to decide in each of the decision or activity areas in his business. A five-point Likert-type scale is used for this purpose, and a score is assigned for each scale. The first raw score obtained in the calculation of the supplier's influence score is the score for each distributor for each decision area.

By manipulating the scores obtained for all distributors and all decision areas we can have three types of supplier's influence score, namely (1) for each type of decision area, (2) for each distributor, and (3) for each VMS. The supplier's influence score for a distributor is calculated by adding the scores of the nineteen decision areas of the distributor concerned. The supplier's influence score for a VMS is

calculated by adding the scores for all distributors of the VMS concerned. In this exploratory study to obtain the supplier's influence score for each distributor and each VMS no weight is assigned to each decision area. As mentioned in Chapter I (see Table I,11), five VMSs and one independent distribution system are analysed. The average score of supplier's influence for each decision area and for each VMS is presented in Table III.10, The Average Score of Supplier's Influence.

3. Supplier's Influence: a Comparison between VMSs

On the basis of the difference in the degree of supplier's influence we may analyse the significant differences between VMSs and also those VMSs with the independent system. From Table III.10 we can make some conclusions as follows:

- (1) There are some distinctive differences among the VMSs and also between the VMSs and the independent system with regard to the type and amount of decision areas influenced or controlled by the supplier, and the degree of the supplier's influence in some of the decision areas. Some VMSs, e.g. VMS - 5 and VMS - 1 have many decision areas controlled by the supplier, and other VMSs, e.g. VMS - 4 and VMS - 3, have far fewer decision areas so controlled. It is very obvious that the independent system has the fewest decision areas (almost none) significantly influenced by the supplier.
- (2) In one decision area, i.e. deciding on the retail price, almost all distributors (except those belonging to the independent system) feel that the suppliers have complete control. Thus in the VMSs studied retail price is regarded as a strategic area where the main suppliers do not want the distributors to decide freely, because that might endanger the objectives of the whole channel system.
- (3) In some decision areas, and in particular those concerning the management of the human resources of the small business, there is quite a lot of freedom for the distributors to decide (see items 8 to 12). This may be one of the reasons why, despite many constraints from which the small business entrepreneurs experienced in a VMS, these small business entrepreneurs feel that they are businessmen rather than employees.
- (4) In some decision areas (see items 1, 3, 5, 13, 14, 16, 17 and 19) there are wide variations between VMSs in the degree of the supplier's influence. Such variation is part of the marketing-mix and in particular the distribution-mix strategy employed by the main supplier. In this study all of the main suppliers have multiple channel distribution systems. This is why there are cases,

TABLE III.10

THE AVERAGE SCORE OF SUPPLIER'S INFLUENCE

(Q.B, 49)

Types of decision or activity	VMS-1 n=22	VMS-2 n=12	VMS-3 n=14	VMS-4 n=15	VMS-5 n=14	Indep. n=21	Average n=98
1. Deciding on the types of merchandise sold at the sales outlet	3.27	3.42	1.36	2.20	0.57	0.57	1.89
2. Deciding on the volume of merchandise sold	3.73	2.92	2.57	2.27	2.64	0	2.29
3. Deciding on the level of inventory	3.36	2.75	2.07	1.80	1.00	0.43	1.90
4. Deciding on the retail price	3.82	3.50	4.00	3.80	3.79	1.95	3.40
5. Deciding on the retail sales agreement	3.41	2.33	0.57	1.27	3.47	0.19	1.86
6. Planning channel's salesman assignments	0.25 n=16	0.67	0.13 n=8	0 n=12	0.50	0.22 n=18	0.30 n=80
7. Deciding on consumer promotion programmes	2.68	2.92	2.15 n=13	1.57 n=14	2.07	0.55 n=20	1.94 n=95
8. Deciding on the number of employees	0.36 n=21	0.58	0 n=13	0	1.71	0	0.36 n=96
9. Employee selection	0.32	0.50	0 n=13	0	1.79	0	0.39 n=97
10. Deciding on wages and salaries	0.18	0.41	0.08 n=13	0	1.79	0	0.36 n=97
11. Employee placement and transfer	0.50	0.50	0	0	1.79	0	0.43
12. Employee termination	0.23	0.25	0 n=13	0	1.79	0	0.34 n=97
13. Decision on the type of accounting system adopted	3.27	2.75	1.71	0.60	3.29	0.57	2.00

TABLE III.10

(continued)

Types of decision or activity	VMS-1 n=22	VMS-2 n=12	VMS-3 n=14	VMS-4 n=15	VMS-5 n=14	Indep. n=21	Average n=98
14. Decision on the type of administration system adopted	3.48 n=21	2.92	2.50	0.60	3.43	0.67	2.21 n=97
15. The use of gross profits	0.68	0.55	0.29	0.07	3.36	0	0.75
16. Deciding on the amount of investment	3.23	1.75	0.93	0.53	3.50	0.38	1.73
17. Deciding on the type of investment	3.36	2.00	0.86	0.33	3.21	0.38	1.71
18. Deciding on new types of customer	0.71 n=21	0.83	0.14	0.33	1.76	0.29	0.65 n=97
19. Deciding on sales territories and their extension	1.05 n=21	3.42	0.64	2.53	2.21	0.62	1.59 n=97
Total-Column	37.73	34.92	19.50	17.80	43.71	6.19	25.83
Standard deviation	8.88	8.84	6.96	7.64	8.33	6.54	15.71
Average score column	1.98	1.83	1.03	0.93	2.30	0.32	1.36

Notes: The meaning of the scores:

- 0 = The distributor has full freedom to decide or to act.
- 1 = The distributor has greater freedom than the supplier.
- 2 = The distributor and the supplier have equal power.
- 3 = The supplier has greater freedom than the distributor.
- 4 = The supplier has full freedom to decide or to act.

as has been discussed earlier, where some qualified independent distributors have been asked to join a more tightly controlled system, while there have been reverse cases where unqualified distributors in a VMS have been 'demoted' into a looser type channel system.

These pattern of the supplier's influence in the VMSs studied are not static. There have been some changes reported, and presumably these are happening as part of the dynamic of distribution and marketing. One VMS has been developed from a tight control-type into a relatively loose one, and there is also a reverse case. Besides that there is a VMS which for a considerable period of time has undergone very little change in this pattern of relationship.

4. Supplier's Influence: the Ranking of VMSs and Independent System

From Table III. 10 we can conclude that there are differences between VMSs with regard to their supplier's influence score which enable us to assign a rank to each VMS. A further analysis of the differences between VMSs is presented in Table III.11, The Degree of Supplier's influence by VMS. The scores used in Table III.11 are the cumulative scores for each distributor. The cumulative scores for each distributor is obtained by adding the raw scores of the nineteen decision areas for the distributor concerned, as mentioned earlier.

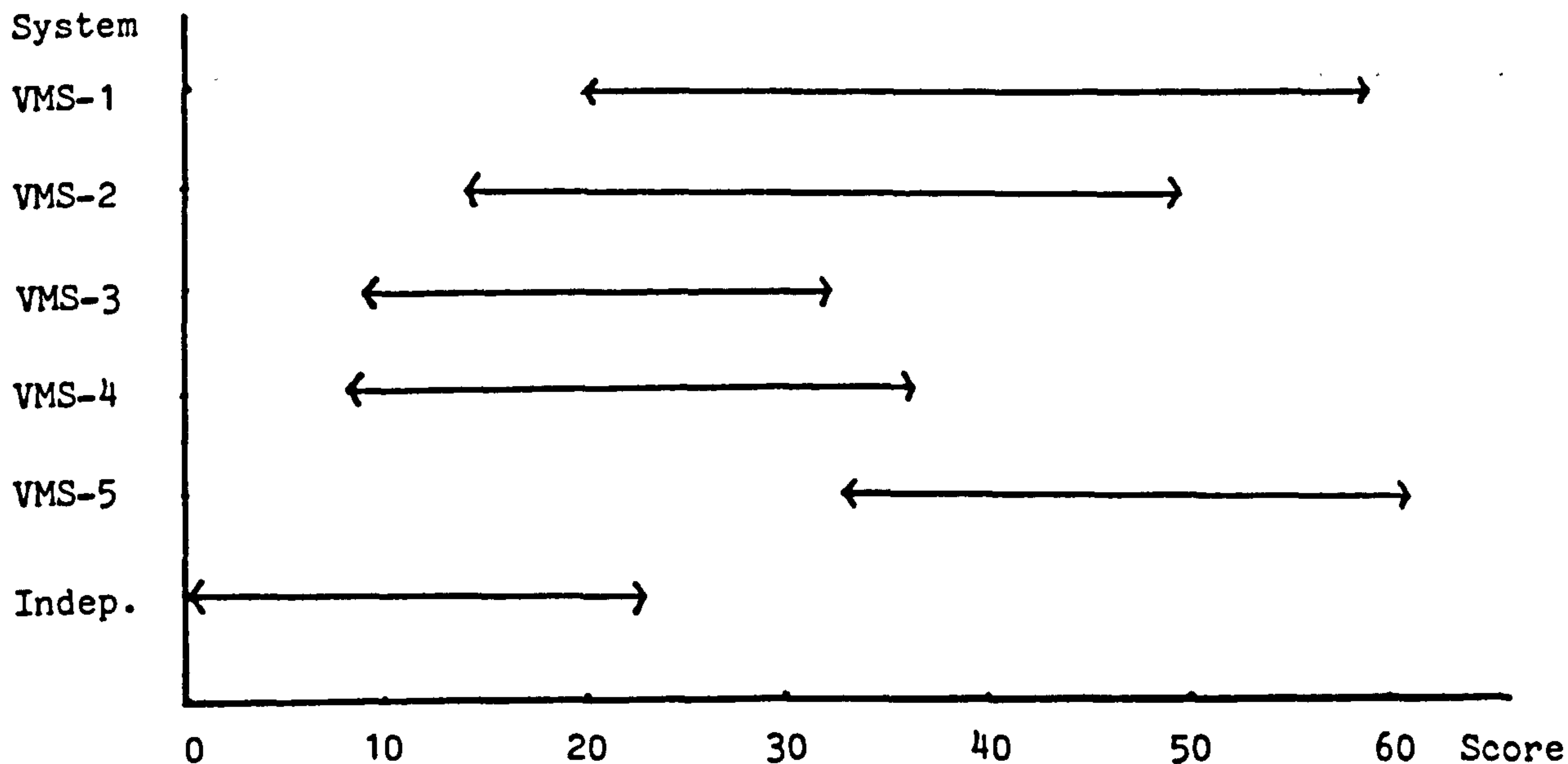
Both from Table III.10 and Table III.11 we can conclude that among the VMSs it is the VMS - 5 that have the highest supplier's influence score (i.e. the distributors have the least freedom) and VMS - 4 has the lowest score. As has been expected the independent system has the lowest score. There is, however, some variation of the supplier's influence score for distributor within each VMS. The minimum and the maximum score are listed in Table III.11. These variations of scores are plotted in the form of line charts in Table III.12. From this table we can conclude that scores vary widely among distributors within the same distribution system. Also, between various VMSs there are significant numbers of distributors who have the same scores. This leads us to conclude that there is a weakness in the average score of the supplier's influence figures obtained with the above method. Thus there is a deficiency in using only the supplier's influence score for VMS and the ranking of the VMSs as suggested in Table III.10 and Table III.11

TABLE III.11

THE DEGREE OF SUPPLIER'S INFLUENCE BY VMS*

Distribution System	n	Supplier's Influence Scores					Rank
		Min.	Max.	Std. Dev.	Mean	Median	
VMS 1	22	20	59	8.876	37.727	37.5	2
VMS 2	12	14	50	8.836	34.917	36	3
VMS 3	14	9	32	6.959	19.500	17	4
VMS 4	15	8	36	7.636	17.800	15	5
VMS 5	14	33	61	8.334	43.714	42.5	1
Independent	21	0	23	6.639	6.190	5	6

TABLE III.12

THE LINE CHART OF THE SUPPLIER'S INFLUENCE SCORES BY VMS AND INDEPENDENT SYSTEM *

Notes for Table III.11 and 12:

* The supplier's influence score is for individual distributors and is obtained by summing up the scores of the nineteen decision areas (see Table III.10).

A further analysis is carried out to investigate whether there are significant differences between various VMSs with regard to the supplier's influence scores for distributor. It is assumed that the supplier's influence score for each distributor is an ordinal score, thus the Mann-Whitney U test can be used (95). The result of the test is presented in Table III.13, Analysis of Differences between VMSs. From Table III.13 we can conclude that (with few exceptions) basically there are significant differences between various VMSs. No significant differences are found between VMS - 1 and VMS - 2, and between VMS -3 and VMS - 4. On the basis of the foregoing analysis we can classify the VMSs and independent distribution system studied as follows:

- Very tight control : VMS - 5
- Tight control : VMS - 1 and VMS - 2
- Fairly loose control : VMS - 3 and VMS - 4
- Loose control : Independent System.

TABLE III. 13

ANALYSIS OF DIFFERENCES BETWEEN VMSs

(Mann - Whitney U test)

2 - tailed p, corrected for ties

	VMS 1	VMS 2	VMS 3	VMS 4	VMS 5
VMS 2	0.4161				
VMS 3	0.0000	0.0005			
VMS 4	0.0000	0.0004	0.4307		
VMS 5	0.0638	0.0266	0.0000	0.0000	
Independent	0.0000	0.0000	0.0000	0.0001	0.0000

H. THE SIMILARITIES AND DIFFERENCES BETWEEN VMSs

The analysis of the differences between VMSs is based on the assumption that in each VMS there is a unique pattern of relationships which has been developed by the channel leader in response to the internal and external forces throughout its history. This pattern is reflected in various aspects of the VMS. A summary of some characteristics of the VMSs studied is presented earlier in Chapter I, Table I.10. In this study twelve key VMS issues are investigated and the list is presented in Table III.14. These key issues have been short listed on the basis of the previous discussion on the objectives of this study (as described in Chapter I), the theory and practice of VMS discussed in Chapter II and some other issues discussed earlier in this chapter. There are four groups of VMS aspects analysed, namely (1) the relationship satisfaction, (2) the distributor's entrepreneurial characteristics, (3) the supplier's assistance, and (4) the supplier's characteristics. The analysis of the similarities and differences between VMSs on these key issues is carried out by chi-square test. A regrouping of the response categories in questionnaire B is done for this purpose, owing to the smallness of the sample. The result of the computation is presented in Table III.14, Analysis of VMS and Supplier's Influence.

As has been discussed earlier in the previous section, there is a possible similarity of attitudes and situations among distributors from different VMSs. For example, there are some overlappings of supplier's influence score among distributors in different VMSs (see Table III.12). On the basis of this fact, an analysis is carried out to investigate whether there are any significant differences among distributors as regards to their perception on the supplier's influence and the key VMS issues mentioned earlier. In other words, in this analysis we are concerned with the individual distributor's perception of the supplier's influence and the relationships of this perception to the key VMS issues, while in the earlier analysis discussed in this section our concern is with the group's perception as represented by the VMS. The individual distributor's perception of the supplier's influence is represented by the supplier's influence score for each distributor. As mentioned earlier this score is assumed to be an ordinal score and thus the analysis can be carried out with Mann-Whitney U test. The result of the calculation is presented in Table III.14. The results of both approaches mentioned above (i.e. both at the group/VMS and individual levels) are used simultaneously to analyse the twelve key issues.

TABLE III.14

ANALYSIS OF VMS AND SUPPLIER'S INFLUENCE

Some VMS Key Issues:	Chi-square of VMS		Mann-Whitney
	Significant Level	Cells with E F < 5	2 - Tailed P
A. RELATIONSHIP SATISFACTION			
1. Supplier's satisfaction	0.5709	10 %	0.8191
2. Distributor's satisfaction	0.0571	none	0.9454
B. ENTREPRENEUR'S CHARACTERISTICS			
3. Ethnic group	0.0000	none	0.0005
4. Father's business background	0.0125	30 %	0.1584
5. Business experience	0.0458	none	0.8145
6. Independence of income sources	0.4749	none	0.8898
C. SUPPLIER'S ASSISTANCE			
7. Supplier's significant help at the start	0.0000	10 %	0.0000
8. Without the supplier he would not be entrepreneurs	0.0015	none	0.0100
9. Supplier's potential to develop entrepreneurs	0.1163	30 %	0.0121
D. SUPPLIER'S CHARACTERISTICS			
10. Supplier's position: above or equal	0.9143	10 %	0.5675
11. Supplier's treatment: authoritarian or participative	0.4575	10 %	0.9627
12. Supplier's selfishness	0.1182	10 %	0.8590

- Notes:
- Item 1 from questionnaire C, and item 2 to 12 from questionnaire B.
 - The degrees of freedom of the chi-square is 4
 - Items 4 and 9 do not meet chi-square test requirements.
 - The Mann-Whitney U test uses supplier's influence score for distributor.
 - In this study the 0.05 significant level is chosen as the cut off line

From Table III.14 we can make the following conclusions:

1. Type of VMS and Relationship Satisfaction.

As far as the supplier's satisfaction is concerned, there is no significant difference between VMSs. Also at the individual level, there is no significant difference between distributors evaluated satisfactory and those not satisfactory as regards to their perception on the supplier's influence (the Mann-Whitney U test 2-tailed $p = 0.8191$). On the basis of the above findings we can conclude that the supplier may feel satisfied with both SBEs who (as a group in a VMS or as an individual) consider that the supplier's influence is high and those who feel otherwise.

There is a weak relation between VMS and distributor's satisfaction. A further detailed analysis, as presented in Table III.15, Distributor's Satisfaction and VMSs, reveals that there is no relationship between the rank of VMS (see previous Table III.11 for rank of VMS) and the distributor's satisfaction. For example, in Table III.15 both VMS - 4 and VMS - 5 have smaller percentages in the 'not satisfied' category and larger percentages in 'satisfied'. It was expected that these two VMSs, between which there is a significant difference (see Table III.13), were in contrast in terms of those two satisfaction categories. The Mann-Whitney U test supported the conclusion that there is no relationship between distributor's satisfaction and distributor perception on the supplier's influence. In other words, there is a solid statistical conclusion that distributor's satisfaction is not significantly related with their perception, as a group in VMS or as an individual, of the degree of supplier's influence.

TABLE III.15

VMSs AND DISTRIBUTOR'S SATISFACTION

	Not Satisfied		Satisfied		Row Total	
	x	%	x	%	x	%
VMS 1	11	14.5	11	14.5	22	28.9
VMS 2	8	10.5	4	5.3	12	15.8
VMS 3	7	9.2	7	9.2	14	18.4
VMS 4	4	5.3	11	14.5	15	19.7
VMS 5	2	2.6	11	14.5	13	17.1
Column Total	32	42.1	44	57.9	76	100.0

Chi-square = 9.16451
Significance = 0.0571

Missing = 1

With regard to the relationship between power and satisfaction Wilkinson suggests as follows on the basis of his research:

"...this research suggests that while increased control over other firms tends to result in a more satisfactory performance, there are dangers in gaining too much control. Firms having substantial control over other channel members may tend to denigrate their worth, an attitude that could lead to deteriorating relationships and eventually to less efficient performance (96)."

In the five VMSs studied, there are different degrees of supplier's control, but it is not clear whether any of them have passed the optimum level of control so as to lead to an increase in distributors dissatisfaction. As has been discussed earlier, the figures obtained in this study may have been distorted by the possibility that many of those who are not satisfied have left the VMS.

2. Entrepreneur's characteristics and VMSs.

a. Distributor's ethnic group.

There is a very significant difference between VMSs with regard to the ethnic group of their distributors. Table III.16, Distributor's Ethnic Group and VMSs shows that certain types of VMS (i.e. VMS 1 and 5) have predominantly indigenous distributors, some other VMSs (i.e. VMS 2 and 3) have reasonably mixed ethnic groups, and VMS 4 has mostly non-indigenous distributors. From the same table we can conclude that indigenous distributors tend to be members of those VMSs with a high degree of control and the non-indigenous are members of the loose-control type of VMSs. This tendency is supported by the Mann-Whitney U test which reveals that indigenous distributors tend to have the perception that their supplier's influence is high, while the non-indigenous distributors are otherwise. A further analysis of the similarities and differences between the indigenous and non-indigenous distributors is presented in the next chapter.

b. Father's business background of the distributors.

No chi-square analysis can be carried out, owing to the small number of x in some cells. From the Mann-Whitney U test we can conclude that there is no significant difference between those distributors with fathers who are businessmen and those without with regard to their perception on the supplier's influence. A further analysis of the father's business background of the distributors is presented in the next chapter.

TABLE III.16

VMSs AND DISTRIBUTOR'S ETHNIC GROUP

	Indigenous		Non-Indigenous		Row Total	
	x	%	x	%	x	%
VMS 1	16	20.8	6	7.8	22	28.6
VMS 2	7	9.1	5	6.5	12	15.6
VMS 3	5	6.5	9	11.7	14	18.2
VMS 4	1	1.3	14	18.2	15	19.5
VMS 5	13	16.9	1	1.3	14	18.2
Column Total	42	54.5	35	45.5	77	100.0

Chi-square = 27.16214

Significance = 0.0000

c. Prior business experience of the distributors.

There is a significant difference (at 0.05 level) between VMSs with regard to the distributor's prior business experience. Some VMSs tend to have preference in terms of the distributor's prior business experience (i.e. VMS - 3 tends to have distributors who have prior business experience while VMS - 1 is the reverse), and other VMSs seem relatively unconcerned with regard to this aspect (i.e. VMS - 2, 4 and 5). The detail of the cross tabulation of distributor's prior business experience and VMSs is presented in Table III.17, Distributor's Prior Business Experience and VMSs.

From Table III.17 we may conclude that there is no pattern as to whether a distributor without prior business experience is likely to be a member of a tight-control type of VMS or the reverse. The relative absence of relationship between the distributor's prior business background and the supplier's influence is suggested in the Mann-Whitney U test as presented in Table III.14. This test reveals that there is no significant relationship between the distributor's prior business background and his perception of the supplier's influence (the 2-tailed p is 0.8145). A further analysis of the similarities and differences between distributors with or without prior business experience is presented in the next chapter.

TABLE III.17

VMSs AND DISTRIBUTOR'S PRIOR BUSINESS EXPERIENCE

	Has Experience		No Business Experience		Row Total	
	x	%	x	%	x	%
VMS 1	6	7.8	16	20.8	22	29.6
VMS 2	7	9.1	5	6.5	12	15.6
VMS 3	11	14.3	3	3.9	14	18.2
VMS 4	7	9.1	8	10.4	15	19.5
VMS 5	6	7.8	8	10.4	14	18.2
Column Total	37	48.1	40	51.9	77	100.0

Chi-square = 9.70044
Significance = 0.0458

It is surprising to know that there is no significant relation between distributor's prior business experience and the supplier's help at the start of the venture. It was assumed that the more business experience a distributor had, the less he would receive help to start the venture, conversely that the less experience a new distributor had the more help from the supplier he would receive to start the venture. A chi-square test was carried out to measure the relationship, and the result is presented in Table III.18. Distributor's Business Experience and Supplier's Help. From Table III.18 we can conclude that quite a number of distributors (27.3 per cent) who had prior business experience feel that the supplier has helped them significantly to start their venture. This suggests that a VMS may have been so designed that it is not too easy for an experienced businessman to enter into the system, and thus a lot of supplier's assistance is needed. On the other hand, there are inexperienced distributors (20.8 per cent) who feel that the suppliers do not help them significantly at the start of the venture. It is very likely that in place of the supplier these distributors have other more experienced persons, whom they can depend on for assistance, such as their parents or friends. These alternative of 'outside' assistance may be more readily available in the Chinese business community than the indigenous owing to the close connections with the extended family in the Chinese social structure (97).

TABLE III.18

DISTRIBUTOR'S BUSINESS EXPERIENCE AND SUPPLIER'S HELP

	Help Significantly		No or Not Much Help		Row Total	
	x	%	x	%	x	%
Has Experience	21	27.3	16	20.8	37	48.1
No Business Experience	24	31.2	16	20.8	40	51.9
Column Total	45	58.4	32	41.6	77	100.0

After Yates correction:

Chi-square = 0.00326

Significance = 0.9545

d. Independence of income sources of the distributors.

As has been mentioned earlier in Chapter II.D, one of the important characteristics of entrepreneurs is the independent status and attitudes. This is, however, a difficult aspect to measure, particularly for small business entrepreneurs. Deeks writes that a number of writers suggest that the independence of many small businessmen is largely illusory, particularly for the self-employed owner-operators of small businesses (98). These entrepreneurs are independent only on one thing, namely an employer. In every other respect, their competitors, customers, the wholesalers, banker, landlord, etc. influence the small businessman much as would an employer (99).

Stanworth et al. compare independent small business and franchised small enterprise. They conclude, as has been mentioned earlier in Chapter II, that franchisee is less independent at both the formal and operational levels. But this distinction is a relative one (100). Stanworth and others' study uses the feeling of responsibility on certain key aspects of the outlet's operations to measure franchisee's operational independence (101).

In this study the independent attitudes of the SBEs are measured with two main indicators, namely:

(1) Independence of income sources.

As has been mentioned in Chapter I, all the SBEs have been at least three years in the VMS studied. On the average they have been 8.6 years in the business studied, with a minimum of three years and a maximum of 29 years. It is assumed that with the experience they have, both in business and in VMS, they would be able to decide whether they would rather depend solely on the income from one business, which is presumably under much influence from the main supplier, or also have some other sources of income (i.e. 44.2 per cent of them have other sources of income).

(2) Independence of entrepreneurial career.

The independent attitude of the SBEs in this aspect is investigated by enquiring whether they agree or disagree with the statement that without the supplier they would not have been able to become the businessmen that they are today (see Q.B, 52).

In this part the independent aspect of SBEs as described in point (1) is discussed and analysed, while point (2) is discussed in the later part of this section. With regard to the independence of income sources, Table III.14 reveals that there is no significant difference between VMSs. In other words, all of the VMSs have both distributors with other sources of income outside the establishment under the VMS studied and also some who have no other sources of income. This means that distributors who have the urge to be independent in terms of sources of income exist in all the various types of VMSs studied, and the type of VMS does not significantly determine their presence in those VMSs. Thus as far as the sample of the VMSs in this study is concerned there is a possibility of a VMS accomodating this 'independent' type distributors.

From the discussion with the suppliers the author got the impression that the suppliers or VMS leaders tend to prefer to have distributors who are willing to devote all their time and loyalty to only one VMS. A detailed relationship of the various VMSs and distributor's income independency is presented in Table III.19, Distributor's Income Independency and VMSs.

The Mann-Whitney U test reveals that there is no significant difference between distributors having an independent attitude on their sources of income and those who do not with regard to their perception on the supplier's influence. In other words, there is no relation between the independent attitude on sources of income and perception of supplier's influence.

TABLE III.19

VMSs AND DISTRIBUTOR'S INCOME INDEPENDENCY

	Have Other Income		No Other Income		Row Total	
	x	%	x	%	x	%
VMS 1	11	14.3	11	14.3	22	28.6
VMS 2	6	7.8	6	7.8	12	15.6
VMS 3	8	10.4	6	7.8	14	18.2
VMS 4	5	6.5	10	12.9	15	19.5
VMS 5	4	5.2	10	12.9	14	18.2
Column Total	34	44.2	43	55.8	77	100.0

Chi-square = 3.51995
Significance = 0.4749

3. Supplier's assistance and VMSs.

a. Supplier's significant help at the start.

There is a highly significant difference between VMSs with regard to the degree of assistance given to their distributors. Table III.20 illustrates which VMSs help their distributors most and which least. From Table III.20 we may conclude that those VMSs with a high degree of control (i.e. VMS - 1 and 5) offer significantly more help at the start of the venture than those of the loose type (i.e. VMS - 3 and 4).

At the individual distributor level, the Mann-Whitney U test reveals that there is significant difference between those distributors who feel that their supplier have help them at the start with those who do not in terms of their perception on the supplier's influence.

TABLE III.20

VMSs AND SUPPLIER'S HELP AT THE START

	Help Significantly		No or Not Much Help		Row Total	
	x	%	x	%	x	%
VMS 1	20	26.0	2	2.6	22	28.6
VMS 2	7	9.1	5	6.5	12	15.6
VMS 3	2	2.6	12	15.6	14	18.2
VMS 4	2	2.6	13	16.9	15	19.5
VMS 5	14	18.2	0	0	14	18.2
Column Total	45	58.4	32	41.6	77	100.0

Chi-square = 43.30983
Significance = 0.0000

b. Supplier's help to make distributors into entrepreneurs.

In this case the term entrepreneur is loosely defined. It may be interpreted as meaning the leader of the establishment studied. As has been discussed in Chapter I, the definition of entrepreneur used in this study is someone who owns and manages a business. There is, however, a possibility that in a VMS these small business entrepreneurs consider themselves to be managers rather than entrepreneurs owing to the tight control exercised by the channel leader. On the basis of experience of the franchising system in the West (e.g. the USA) there are both the independent-entrepreneur and the manager types of franchisee, as has been discussed earlier in Chapter II. A detailed examination of the entrepreneurial aspect of the distributors studied is presented in Chapter IV.

From Table III.14 we may conclude that there is a significant difference between VMSs with regard to their help to distributors in terms of making them into entrepreneurs (102). Some VMSs provide significant help for the distributors to become entrepreneurs while other VMSs do not (see Q.B, 52 for the question used). It seems that those VMSs which are under high supplier control (i.e. VMS - 1 and 5) help their distributors to become entrepreneurs more than do those other controlled type, i.e VMS - 2, 3, and 4. A detailed picture of this relationship is presented in Table III.21, Suppliers Help to Create Entrepreneurship and VMSs.

TABLE III.21

VMSs AND SUPPLIER'S ROLE TO MAKE SBES ENTREPRENEURS

	Without the supplier he would not be entrepreneur					
	Agree		Disagree		Row Total	
	x	%	x	%	x	%
VMS 1	13	16.9	9	11.7	22	28.6
VMS 2	3	3.9	9	11.7	12	15.6
VMS 3	2	2.6	12	15.6	14	18.6
VMS 4	4	5.2	11	14.3	15	19.5
VMS 5	11	14.3	3	3.9	14	18.2
Column Total	33	42.9	44	57.1	77	100.0

Chi-square = 17.49381

Significance = 0.0015

Parallel with the above findings for group/VMS, at the individual level the Mann-Whitney U test reveals that there is a significant relationship between the distributors' perceptions of the supplier's role in making them into entrepreneur and those of the supplier's influence. Those distributors who feel that their suppliers make them entrepreneurs tend to consider that the supplier's influence in their business is high.

From Table III.21 we may conclude that the supplier has a very significant role in developing the entrepreneurial aspect of 42.9 per cent of distributors. Those distributors agree with the statement that without the supplier they would not have been able to become the businessmen that they are today. On the other hand, we may also conclude that quite a significant percentage (57.1%) feel that they are 'independent' of the supplier with regard to their effort to be businessmen. This finding adds to the belief that in a VMS there may be a significant number of these independent type of entrepreneurs. This type of distributors are mostly in the VMS with a loose type of control as has been discussed earlier.

c. Supplier's potential to develop distributor's entrepreneurship.

The capability of the supplier to make someone into an entrepreneur is investigated by questionnaire B, number 55 namely 'Does the supplier have the capacity to make someone into an entrepreneur?'; 64.9 per cent of distributors consider that the supplier does have the capacity, while 35.1 per cent do not see it. With regard to the differences between VMSs in this aspect no conclusive answer could be gained through chi-square test because too many cells (30%) had an expected frequency of less than 5. The Mann-Whitney U test reveals, however, that there is a significant relationship between distributor's perception on the supplier's potential to develop entrepreneurs and their perception on the supplier's influence. In other words, those who feel that their suppliers have the potential to develop entrepreneurs tend to consider that the supplier's influence on their business is high.

It is interesting to study the explanations given by the distributors with regard to the presence or absence of the supplier's role and capability for developing distributors as entrepreneurs. The following are some of their comments with regard to the supplier's role and assistance which have helped them to be entrepreneurs and also some of them have decided to stay in the VMS because of these factors. The factors most often mentioned is the administration system used in the VMS. For example, the following are their comments about it:

- "The administration [system] is excellent. It can serve as an example for businessman." (cases 1075, 1089, 1106, 1142, 3015, 3083, 3100, 4012)
- "There are lessons we can get from this supplier. Its administration system is the best in Indonesia, although it may not be applicable for other types of business." (case 2117)
- "The supplier trains all of the employees [Notes: distributor's employees] in administration and other systems. It enables me to be a businessman. Moreover, it provides us with the selling system, and I can get a better knowledge of marketing." (case 2022)

Besides the administration system, there are many other factors mentioned by the distributors, such as training, guidance, encouragement, and an atmosphere conducive to their becoming better businessmen. For some, the fact that the supplier is big and famous means that they are well taken-care-off in their careers. This view may come from the 'dependent type' of SBEs. Some of them, however, stress that although the supplier may provide the conditions for someone to become an entrepreneur, but it also depends on the willingness and capability of the distributor involved.

The following are some distributor's comments on these various factors:

- "The experience gained in this system, such as its administration, selling techniques, and the ordering system, can educate us to be businessmen provided that the person involved is willing." (case 1093)
- "It is profitable to be a member of this system. From this supplier I can get a good knowledge of doing business for my own venture. The supplier always encourages me and gives me the opportunity to be a businessman. It is a sort of push for progress." (case 1174)
- "There is a sort of education to be a businessman but it depends on the person involved. If we are serious, we can become businessmen." (case 2068)
- "Many of those who work closely together with this supplier have proved successful." (cases 5023 and 7126)
- "With the supplier's system, all aspects are in order, and this gets me accustomed to doing everything in an orderly way. The supplier also gives valuable advice and welcomes any exchange of views." (case 5136)
- "[The supplier] has adequate capital, a uniform administration system, experience, and a famous brand-name." (case 7059)
- "Yes, with its capital, organization, knowledge, and strong management, the supplier can easily launch someone to be an entrepreneur or suppress him." (case 7081)

A comprehensive view about the possible role of the supplier in helping distributors to become businessmen is explained by one distributor in a tightly controlled VMS as follows:

"I receive a lot of guidance and financial assistance. I get plenty from this supplier. If there is any other business it is only an enlargement [Notes: This distributor has other business]. [With regard to the capability of the supplier to make someone into an entrepreneur] it depends on the person involved. There is a great deal of assistance provided by the supplier. Don't give assistance too much, because it will prevent us from becoming mature. Some need pressure to become big, such as the sales target system. If we are mature, the pressure comes from within ourselves. The business skills given by the supplier include knowledge of how to sell, how to get payment, administration and theories of business." (case 7144)

On the other hand, valid arguments are put forward by some of the distributors who do not see how the supplier can make

anyone into an entrepreneur. For example, one distributor would choose the same supplier again if he started this life all over again because in doing business under the VMS the risk is slight. He says:

"What is needed to run this business is the provision of a site and a work-force."

He further explains that the supplier does not really make anyone into an entrepreneur, because it is too much involved. That is why the distributor's risk is small (case 1138). On the basis of previous classification of distributors (see Figure III.1), this distributor can be classified as a member of 'the dependent developed group'.

Another distributor explains his scepticism about the supplier's ability to develop entrepreneurs as follows:

- "The chances that someone can or cannot become an entrepreneur are the same." (case 5041)
- "So long as businessmen are ruled by a supplier, they have difficulty in developing or doing anything on their own, because there is an agreement which these distributors have to obey. This agreement is a burden for them." (case 1011)
- "I became an entrepreneur because of my own effort and my parents' encouragement, and not because of the supplier." (case 5087)

In the foregoing discussion some quantitative and qualitative data have been presented which enable us to draw some boundaries and conclusions with regard to the capacity of a VMS to develop entrepreneurs. There have been mixed results with regard to the contribution of those various types of VMSs in developing a distributor's entrepreneurship. In a tight control VMS the distributors may enjoy various kinds of assistance and psychological conditioning, which may lead them to become better businessmen, but at the same time it may restrain its channel members for doing something on their own, thus suppress their independence spirit. Some of the very independent distributors in this tight-control system have been able to find other ventures in which to put their entrepreneurial talent into practice and at the same time to make use of the skills and other benefits obtained by being a member of VMS. These distributors can be classified as members of 'the independent developed group'. The findings discussed in this section support the classification of distributors mentioned earlier in this chapter (see Figure III.1).

Those VMSs of a loose-control type do not offer much for the initial creation of distributor's entrepreneurship, but they do offer assistance and resources, such as trade-names, which for some of these distributors mean a lot for their survival and progress. A further discussion on the usefulness and

types of supplier's assistance is presented in the later part of this chapter.

4. Some Supplier's characteristics and VMSs.

There is no significant difference between VMSs with regard to the following supplier's characteristics (see Table III.14 earlier).

a. Supplier's position (see Q.B, 54).

The distributors are asked to judge whether the supplier is above or equal in its level of relationship with the distributor. There seems to be no significant difference between VMSs in this issue (significant level = 0.9143). A more detailed analysis with regard to the supplier's position in this vertical relation has been discussed earlier in this chapter.

b. Supplier's treatment (see Q.B, 56 and 57).

The distributors are asked to judge whether the supplier more often expected them to follow orders as children or to participate as adults. It seems there is no significant difference between VMSs on this issue (significant level = 0.4575). A more detailed analysis about supplier's treatment has been discussed earlier in this chapter.

c. Supplier's selfishness (see Q.B, 56).

The distributors are asked whether on many occasions the supplier more often acted only in his own interests or in those of both the supplier and the distributor. It seems there is no significant difference between VMSs in this issue (significant level = 0.1182).

Parallel with the above findings, at the individual distributor level the Mann-Whitney U test indicates that there is no relation between distributors' perception on the supplier's influence and their perception on the three supplier's characteristics mentioned above, namely:

- (1) supplier's position,
- (2) supplier's treatment, and
- (3) supplier's selfishness (see Table III.14).

From the foregoing analysis we can conclude that although each VMS may have developed its own relationship system, some characteristics are common among them. There are, however, some very distinct differences between VMSs with regard to the ethnic group of the distributors, the prior business experience of the distributors, help at the start

of the establishment, and distributor's perception as to whether they would or would not be entrepreneurs without the supplier. The various findings described in this section will be combined with other aspects investigated in this study and the conclusion is presented in Chapter V.

I. THE SUPPLIER AND DISTRIBUTOR SATISFACTION

Supplier's satisfaction with distributors' performance, efforts, and other aspects of the relationships has been investigated through questionnaire C, as has been previously explained in Chapter I. In this study, the key question for investigating the supplier's satisfaction is 'Are you satisfied with the relationship, and particularly with your profit?' (see Q.C, 1a). It is assumed that the capability of the distributor to yield profit for the supplier is regarded as the most significant aspect of the relationship. There are, however, some other forms of satisfaction. In this study, the following aspects are investigated in addition to the above indicator of supplier's satisfaction.

(1) The social aspect of relationship.

It is assumed that as human beings the supplier's representatives would prefer to deal with distributors who are warm and friendly rather than otherwise (see Q.C, 1-B).

(2) The smoothness of the financial transactions/payments.

As has been discussed earlier, quite a number of distributors ceased to be members of VMS because of this financial issue (see Q.C, 1-c-[1]).

(3) The smoothness of information exchanges.

Many reports are requested, or market information is passed on, to ensure that the right decisions are being made (see Q.C, 1-c-[2]).

(4) The smoothness of the transfer of knowledge and skills.

It is assumed that the supplier requires the distributor to be ahead of other similar competing channels. For example, if new products are launched it is generally assumed that the distributors have familiarized themselves with the technical and other aspects of this new product, either through brochures, manuals or training provided by the supplier (see Q.C, 1-c-[3]).

(5) The future relationship.

In relation with the supplier's satisfaction the last aspect analysed is the forecast of the future relationship, which is investigated by asking the

supplier to set a priority level for each distributor with regard to the continuation of their relationship (see Q.C, 3).

Chi-square tests have been carried out to test whether the supplier's satisfaction, as measured by the key question mentioned earlier (Q.C, 1a), differs from the five relationship aspects discussed above. The results are presented in Table III.22, Supplier's Satisfaction Analysis. A four-point Likert scale is used and the method of obtaining the score is explained in Chapter I, part H, Research Strategy. In addition to the chi-square test Contingency Coefficient C has been calculated to measure the degree of their correlations.

TABLE III.22

SUPPLIER'S SATISFACTION ANALYSIS

Analysis of the relationship between Supplier's satisfaction with the following variables:	Chi-square Tests		Contingency Coefficient:C
	Significance level	Cells with E.F. < 5	
1. The social aspect of relationship (warmness and friendliness)	0.4033	none	0.48049
2. The smoothness of financial transactions/payments	0.0166	25 %	0.53269
3. The smoothness of information exchanges	0.0004	none	0.62972
4. The smoothness of the transfer of knowledge and skills	0.0007	none	0.55067
5. The priority level for the continuation of the relationship	0.0000	none	0.72623

Notes:

- Chi-square tests are carried out to determine whether there is a significant difference between supplier's satisfaction and dissatisfaction with the relationship with regard to some other key aspects of the relationships. A regrouping of the response classifications is made to comply with the requirement of this analysis owing to the small sample.
- The contingency coefficient C is a measure of the extent of association or relation between two variables. The original raw scores are used for this analysis. The value of C is always between 0 and 1, and the higher the score means the stronger the association (see Siegel S. Non-parametric Statistics, 1956, pp. 196-198).

From Table III.22 we can conclude as follows:

(1) Satisfaction and social relationship.

There is no significant difference between those distributors who are considered satisfactory and those who are not with regard to their warmth and friendliness of attitude as perceived by the main suppliers. One of the supplier's executive tends to generalize that those distributors who are successful are usually difficult persons to handle. They (these distributors) think of something unusual and try to make use of many possible loopholes in the agreement, they are creative, and try to postpone payments for as long as possible. Of course, as the statistical test shows, not all of the successful distributors are always unfriendly or uncooperative. On the whole the supplier is satisfied with those distributors who have been three years or more in the relationship (76.6 per cent of distributors are evaluated as satisfactory, and 19.4 per cent as unsatisfactory, with 3.9 per cent not accounted for).

(2) Satisfaction and financial matters.

A very high percentage (75.3 per cent) of distributors are evaluated as satisfactory in their financial payments, 15.6 are not considered satisfactory, and 9.1 per cent are missing. The relationship between supplier's satisfaction and the smoothness of financial transactions is stronger than the relationship discussed in item (1) earlier.

(3) Satisfaction and information exchanges.

There is a positive correlation between the satisfaction of relationship and the smoothness of information exchanges. Those who are considered satisfactory are also performing well in this information exchange.

(4) Satisfaction and transfer of knowledge/skills.

Similarly with item (3), there is a positive correlation between satisfaction and the smoothness of the transfer of knowledge and skills from the supplier to the distributor.

(5) Satisfaction and future relationship.

As expected, a very high significance-level is obtained when the supplier's satisfaction is associated with his judgment with regard to the priority level for the continuation of the relationship.

From the foregoing analysis we can conclude that the supplier's satisfaction score (as measured by question c,1-a) can be used as an indicator to represent several key relationship aspects, namely:

- (1) satisfaction with the financial matters,
- (2) satisfaction with the information exchanges,
- (3) satisfaction with the transfer of knowledge and skills, and
- (4) the priority level for future relationship.

There is, however, no significant difference between the supplier's satisfaction or dissatisfaction with distributors with regard to the social aspect of the relationship (i.e. its warmth or friendliness). The relationship between the supplier's satisfaction and the social aspect of relationship is the weakest among other key relationship aspects investigated.

The distributor's satisfaction with the supplier is measured by asking the distributor whether he would choose the same supplier again if he were to repeat the experience (see Q.B, 53). The same method of measuring the distributor's satisfaction was used by Hunt and Nevin in their study on the impact of the use of coercive and non-coercive of power (103). The distributor's satisfaction has been discussed earlier in this chapter. The following is the frequency tabulation of distributor's satisfaction.

TABLE III.23

DISTRIBUTOR'S SATISFACTION
(Q.B, 53)

Classification *	Frequency	Per cent	Valid Per cent
1. Not satisfied	17	22.1	22.4
2. Don't know	15	19.5	19.7
3. Satisfied	44	57.1	57.9
4. Missing	1	1.3	missing
Total	77	100.0	100.0

Notes:

* A renaming of the classification is made.

One of the key research questions, as mentioned in chapter I, is whether 'independent' distributors are satisfied being in the VMS. A comparison between these 'independent' distributors and the 'dependent' distributors is presented

earlier in Table III.9, Distributor's Independence and Satisfaction. From Table III.9 we can conclude that there is no significant difference between the 'independent' and the 'dependent' distributors with regard to their satisfaction or dissatisfaction with the supplier. In general, most of them are satisfied with their suppliers (i.e. 57.9%). Also, there is no significant difference between VMSs with regard to the distributor's income-independence, as has been discussed earlier (see Table III.19, Distributor's Income Independency and VMSs). And all of the VMSs studied have significant numbers of 'independent distributors' (see the same table). Therefore there is a possibility that a VMS may accommodate this independent type of distributor. Thus, a VMS is a relationship system where quite a number of independent entrepreneurs may exist and like to be in. With regard to the willingness of a firm to accept other firm's control, Wilkinson writes as follows:

"...some firms may welcome control by other firms that may relieve them of difficult and unrewarding decisions (104)."

Of course, as discussed earlier in this chapter, there are independent entrepreneurs who do not want to operate in a vertically controlled relationship system (see Figure III.1).

In the foregoing discussion we have formed clear conclusions with regard to the satisfaction both of the 'independent' and of the 'dependent' distributors. It is, however, not clear whether the supplier is more satisfied with one of these groups of distributor than with the other. The relationship between the supplier's satisfaction and the distributor's income independence is analysed, and the result is presented in Table III.24, Distributor's Independence and Supplier's Satisfaction. From Table III.24 we can conclude that there is no significant difference between those two groups of distributor with regard to the supplier's satisfaction. In terms of percentage, however, Table III.24 suggests that the supplier tends to be more satisfied with those who are 'dependent'; but this conclusion is statistically weak.

Another indicator of the independent attitude of the distributor is investigated by question B, 52 as discussed earlier. Here the distributor is asked whether he agrees or disagrees with the statement that without the supplier he would not be an entrepreneur. Those who disagree with this statement usually consider that they had been able to become entrepreneurs prior to joining the VMS, or that they have the ability to do it outside the current relationship with the supplier. On the other hand, those who agree with the statement consider that they depend to a large extent on the supplier for their entrepreneurial career.

TABLE III:24DISTRIBUTOR'S INCOME INDEPENDENCE AND SUPPLIER'S SATISFACTION

	Not Satisfied		Satisfied		Row Total	
	x	%	x	%	x	%
Have other income	17	22.4	17	22.4	34	44.7
No other income	13	17.1	29	38.2	42	55.3
Column Total	30	39.5	46	60.5	76	100.0

After Yates correction:

Chi-square = 2.11173

Significance = 0.1462

Contingency coefficient C = 0.19022

Missing cases = 1

In relation with the supplier's satisfaction, one of the important questions is whether the suppliers are more satisfied with the independent-type entrepreneurs or with those who depend heavily on the supplier for their entrepreneurial career. Both the chi-square test and the contingency coefficient analysis reveals that there is no significant relationship between the supplier's satisfaction and the independent attitudes of the distributor. (The 2x2 chi-square significant level is 0.4699 after Yates correction, and the contingency coefficient C is 0.10939). Albeit this finding is about a different kind of distributor's independent attitude, it supports the conclusion of the previous analysis namely there is no significant relationship between the supplier's satisfaction and the distributor's independence.

J. SUPPLIER'S ASSISTANCE

Hunt and Nevin have empirically established that in a franchise channel of distribution franchisees are less satisfied with franchisors who use coercive sources of power (i.e. ability to punish) and more satisfied with those who use non-coercive sources (i.e. ability to provide high quality of assistances)(104). Some distributors have voiced their discontent regarding the various types of pressures imposed by the supplier, as has been quoted earlier in this chapter. Those who are satisfied have seen and enjoyed the benefit of the supplier's assistance. In this section, the various types of assistance provided by the supplier are described and their usefulness is evaluated. The list of forms of supplier's assistance is designed on the basis of pilot surveys and models developed in some studies previously conducted in this field, such as those by Etgar (105) and Hunt and Nevin (106).

As has been mentioned earlier in Chapter I, a franchise may provide a complete package of assistance so as to ensure the success of the SBEs. The significant help of the supplier at the start of the venture has been analysed in the previous section. From Table III.20 we know that 58.4 per cent of distributors think that the supplier helped them significantly at the start, and the remaining 41.6 per cent feel that the supplier did not help them significantly in the early part of the venture. Also, there is a significant difference between VMSs with regard to the degree of help at the start of the venture. Those distributors in the VMSs with a high score of supplier's influence mention great help at the start of their venture (i.e. VMS - 1 and 5).

The various types of assistance provided by the supplier to ensure the day-to-day operation of the distributors are investigated with questionnaire B, number 50. There are 10 types of supplier's activities or resources investigated. The distributors are asked to rate the degree of existence of these assistances and their degree of usefulness. A Likert-type of scale is used for each aspect, and a score is assigned to each category. The raw-scores of each type of assistance are obtained by the multiplication of the 'existence' score and 'usefulness' score, except on item 8, 9 and 10 a modification of scoring is used, owing to the nature of the type of supplier's assistance or resources investigated. The final result of the tabulation, scoring, and ranking of supplier's assistance is presented in Table III.25, The Existence and Usefulness of Supplier's Assistance.

TABLE III.25

THE EXISTENCE AND USEFULNESS OF SUPPLIER'S ASSISTANCE

(Except rank row figures are in terms of percentage of distributor)

Supplier's Activity	<u>Existence</u>				<u>Usefulness</u>			Rank Row
	Many (a)	Moderate (b)	Few (c)	None (d)	Disturb- ing (e)	Not very useful (f)	Useful (g)	
1. Supervisory visits	15.6	51.9	31.2	1.3	2.6	14.3	81.8	4
2. Marketing and selling strategy propositions	27.3	35.1	31.2	6.5	-	10.4	83.1	2
3. Advertising	37.7	26	26	10.4	-	15.6	74	6
4. Sales promotion	15.6	22.1	39	23.4	-	9.1	67.5	8
5. Training	6.5	15.6	54.5	23.4	-	3.9	72.7	7
6. Market and competition information	5.2	10.4	15.6	68.8	2.6	1.3	27.3	10
7. New product introduction	19.5	44.2	29.9	6.5	2.6	10.4	79.2	5
8. Administration system	X	X	X	14.3	1.3	2.6	83.1	3
9. Trade and Brand name	X	X	X	1.3	-	5.2	94.8	1
10. Incentive for distributors	X	X	X	23.4	1.3	24.7	50.6	9

Notes: 1) X = irrelevant.

2) A score is assigned for each category of "existence" and "usefulness". The rank of the row is obtained from the multiplication of the score of "existence" and "usefulness". The following scores have been used in the above categories:
 Item 1-7: a=3, b=2, c=1, d=0, e=-1, f=1, g=2.
 Item 8-10: e=-3, f=3, g=6.

The ranking of Supplier's assistance, on the basis of its availability and usefulness, is as follows:

1. Trade and brand name.
2. Marketing and selling strategy.
3. Administration system.
4. Supervisory visits.
5. New product introduction.
6. Advertising.
7. Training.
8. Sales promotion.
9. Incentive.
10. Market and competition information.

It is very interesting to note that the distributors place a very high value on the supplier's 'trade and brand name'. This suggests that being a member of a reputable business circle gives these small business entrepreneurs a sense of potential success. Whatever business objectives these distributors have, the supplier's trade and brand-name is the most useful resources the supplier provides to enable them to achieve their individual objectives. There are, however, two markedly different views with regard to the usefulness of the supplier's trade-name. Some distributors, and in particular those of the dependent type, consider that the supplier's trade-name assures them customers, while others, such as the entrepreneurial-independent distributors, consider it as a means of guaranteeing their reputation, so that third parties such as banks and other businessmen are accessible.

The usefulness of "Trade and brand-name" is quite in contrast with the following supplier's assistance: "Market and competition information". The following table clarifies the difference of the usefulness of those two types of assistance from distributor's point of view:

TABLE III.26

THE CONTRAST BETWEEN "TRADE AND BRAND NAME" WITH
"MARKET AND COMPETITION INFORMATION" IN TERMS OF
THEIR USEFULNESS

(in percentage of respondent)

	Trade and brand name	Market and competition information
1. Useful	94.8	27.3
2. Not very useful	5.2	1.3
3. Disturbing	-	2.6
4. This benefit is unavailable	1.3	68.8
Total	<u>100.0</u>	<u>100.0</u>

From Table III.26 we can conclude that supplier's assistance in providing market and competition information is very minimal or almost none (68.8 per cent unavailable). According to quite a number of distributors, the supplier is dependent on them for market and competition information, and not the other way around.

Two types of supplier's assistance are central for the transfer of business skills, namely supervisory visits and training. There is, of course, some overlapping between various forms of assistance. For example, training schemes and supervisory visits may be conducted as part of sales promotion, new product introduction, or improvement of administration system. Supplier's supervisory visits and training are subsequently discussed below.

The existence and usefulness of supervisory visits are ranked in the fourth position. Quite a number of distributors (i.e. 31.2 per cent) consider that there have been few supervisory visits, but the majority consider that they are either too many (15.6 per cent) or 'just right' (51.9 per cent). Most of the distributors feel that the supervisory visits are useful (81.8 per cent). Few distributors, however, consider that these visits are either not very useful (14.3 per cent) or else disturbing (2.6 per cent). The summary of distributor's evaluation is presented in Table III.27, Supervisory Visits: Their Availability and Usefulness.

TABLE III.27

SUPERVISORY VISITS: THEIR AVAILABILITY AND USEFULNESS

(in percentage of respondent)

<u>Availability</u>		<u>Usefulness</u>	
1. Many	15.6	1. Useful	81.8
2. Moderate	51.9	2. Not very useful	14.3
3. Few	31.2	3. Disturbing	2.6
4. Unavailable	1.3	4. Unavailable	1.3
Total	<u>100.0</u>	Total	<u>100.0</u>

It may be interesting for the suppliers to know whether there is any significant difference between the independent and dependent type of distributors with regard to their perception of the usefulness of supplier's visits. To analyse this relationship, the chi-square test cannot be used, owing to the small sample. The correlation analysis with the

calculation of Goodman and Kruskal's lambda yields as follows:

TABLE III.28

DISTRIBUTOR'S INDEPENDENCE AND SUPERVISORY VISITS

(Goodman and Kruskal lambda)

	<u>With supervisory visits dependent</u>	<u>Symmetric</u>
1. Independence of income sources (Q.B, 38)	0.00000	0.02083
2. Independence of developing one's entrepreneurial career (Q.B, 52).	0.00000	0.08511

A value of zero means the distributor's independent attitude is of no help in predicting the usefulness of supervisory visits (108).

Training courses are ranked seventh by the distributors because many of them consider that these have been either too few (54.5 per cent) or unavailable (23.4 per cent). The majority who have experienced training provided by the supplier feel that it has been useful (72.7 per cent of total). A summary of distributors' view about supplier's training is presented in Table III.29, Training: Its Availability and Usefulness.

TABLE III.29

TRAINING: ITS AVAILABILITY AND USEFULNESS

(in percentage of respondent)

<u>Availability</u>		<u>Usefulness</u>	
1. Many	6.5	1. Useful	72.7
2. Moderate	15.6	2. Not very useful	3.9
3. Few	54.5	3. Disturbing	-
4. Unavailable	23.4	4. Unavailable	23.4
Total	<u>100.0</u>	Total	<u>100.0</u>

Similar with the analysis carried out for the supplier's visits discussed earlier, the Goodman and Kruskal's lambda is calculated to see the correlation between the distributor's independent attitudes and the usefulness of training course. The value of lambda for both indicators of the distributor's independent attitude (i.e. independence of income sources and independence of developing one's entrepreneurial career) with variable training dependent is zero. Thus there is no significant relationship between the distributor's independent attitude and the usefulness of training.

From the foregoing discussion we can conclude that except for the assistance on 'market and competition information', all other assistance and resources provided by the supplier are considered useful by a high proportion of the distributors (from 50.6% up to 94.8%). Unfortunately, some of this assistance (such as training schemes), is insufficiently available. On the whole we may conclude that the availability and usefulness of the supplier's assistance in the VMSs studied are comparable with a franchise type of assistance, as described earlier in Chapter I and II (see in particular the list of franchise assistance at the end of Chapter I, section E). As has been mentioned in Chapter I, this relatively comprehensive supplier's assistance may not be available in many small business development programmes offered by the government, private voluntary organizations, banks, and other programmes outside vertical relationship systems. As has been mentioned earlier in this chapter, such supplier's assistance and resources provided (e.g. trade-name, supervisory visits, training and administration system) have produced benefits for both the independent and dependent type of distributors. On the other hand, there are problems and dissatisfaction resulting from the supplier's influence on SBE's business, as has been described earlier. A summary of the benefits and problems of the supplier's assistance in VMS is presented in Chapter V.

As has been mentioned in Chapter I, one of the key problems of the indigenous trader group is primarily not how to increase the number of traders, but the development of this group's capabilities to engage in modern types of trading. From the discussion in this chapter, we can conclude that the distributors in the VMSs studied are exposed to the theories and practices of modern retailing and business. Some of them explain that their suppliers have equipped them with various business techniques and changed their attitudes towards doing business, making it more orderly.

Skills for making use of many of the modern business techniques are acquired by the SBEs in their day-to-day operations. Many of the tasks assigned and controlled by the supplier are relevant to the maintenance of a high standard of SBEs' business operations (e.g. merchandise inventory, shop display, and salesmanship). There are, however, tasks which are less relevant for the operation of a small business

unit, such as the amount of form-filling. About 50% of the SBEs say that there are too many types and too frequent form-fillings and 63.1% say that they are too detailed (see Q.B,35).

The introduction of some modern business techniques, e.g. administration, organization and other systems, may help not only the indigenous but also the Chinese businessmen to strengthen their business organization and thus to overcome one of their major weaknesses, i.e. their inability to institutionalize their business organization. As has been mentioned in Chapter I, one of the indicators of such weakness is that both Chinese and indigenous businessmen may lack the capability to build lasting enterprises. According to Geertz, the indigenous entrepreneurs are entrepreneurs without enterprises (109) and Furnivall writes that the Chinese business usually collapses when its founder dies (110). Some of the distributors in VMS - 4 have told success-stories as to building their business organization from the stage of 'self-employed' into being 'owner-directors' (111), as a result of their relationship with their main suppliers. But not all the small business distributors make use this modernization process opportunity owing to their lack of ambition to growth and of other entrepreneurial drives. The entrepreneurial aspects of the distributors are discussed in detail in the following chapter.

CHAPTER IV THE ENTREPRENEURS IN VMS

A. INTRODUCTION

In Chapter II the entrepreneurial aspect of the SBEs in a VMS was theoretically analysed, and one of the conclusions is that in a tightly-controlled VMS, such as franchising, there are diverse types of small business entrepreneurs, ranging from the semi-dependent/independent entrepreneurs up to the fully-controlled manager (see Figure II.4). In this section the entrepreneurial characteristics of the distributors in the VMSs studied are analysed and the focus of the description is on the two extremes of distributor types found in the analysis, namely the 'independent' and the 'non-entrepreneurial'. The next part of this chapter will be devoted to analysing the similarities and differences between distributors as regards the following factors:

- (1) the ethnic groups,
- (2) the father's business background, and
- (3) the distributor's business experience prior to joining the VMS.

The main purpose of analysing several distributor aspects according to those three factors is to determine whether VMS serve as pathways to business careers for the following groups, namely:

- (1) those who have no business background,
- (2) those whose fathers are not businessmen,
- (3) those who are indigenous Indonesians.

Further detailed information on the SBEs in VMS is presented in the appendices. The information includes years of establishment, formal education, age, monthly sales of the main supplier's products, and labour force. This information may serve as additional background material on the SBEs investigated.

B. THE ENTREPRENEURIAL ASPECT OF SMALL BUSINESSES

In this section some key entrepreneurial aspects of small businesses will be discussed as the basis for understanding the entrepreneurship of SBEs in VMS. The use of the words "entrepreneur" and "entrepreneurship" usually needs more clarification in order to understand what they really mean. It is generally believed that it was the French economist Cantillon who first introduced the term 'entrepreneur' (from *entreprendre*, meaning to undertake) and applied it to individuals who obtained factors of production and combined

them into products for the market place (1). In the early period, definitions of entrepreneurship were influenced by the nineteenth-century Europe's and America's industrial development (2). For example Schumpeter's definition of innovative entrepreneur is anchored in industrial and technological innovation (3). There was a tendency to assume that entrepreneurs are a homogenous group (4). According to Deeks the classical economic view of entrepreneurs is as follows:

"The entrepreneur is risk taking, profit-maximizing economic man, independent, competitive, materialistic, and single-minded in his pursuit of wealth (5)."

Researchers in this field gradually showed that there are many types of entrepreneur. With regard to developing countries Kilby (6) and Broehl (7) mention the significant difference between entrepreneurs in LDCs and the early Western type of entrepreneur. Differences in resource endowments, per capita incomes, climate, population size, history, international trade benefits, basic scientific and technological research and development capabilities, stability and flexibility of political institutions may prevent us from generalizing the roles, growth, and problems of entrepreneurship in various countries.

In developing countries there may exist entrepreneurs of a particular type who are more rarely part of the entrepreneurial force in the developed countries. For example, rural entrepreneurs, or village entrepreneurs residing in rural areas, become agents of change there. In such communities entrepreneurship is considered as a means of social mobility, a job alternative, and the source of further jobs (8).

According to Broehl entrepreneurs in LDCs face problems created by a highly traditional cultural background (9). Thus an analysis of the LDC's or non-Western entrepreneurs with the classical view of the Western definition of entrepreneurs may not always be appropriate. McClelland writes that on the basis of some Western definitions the Japanese small machine shop entrepreneurs may be regarded as managers because they maintain freedom of action only in the production sphere, being totally dependent on others for financing, buying, and selling. Yet it appears to be their entrepreneurial activity which is in many respects responsible for Japan's fairly rapid economic development in the past hundred years (10).

In the West there was, and probably still is, a tendency to develop typologies of entrepreneurs which are meant to clarify the differences between various existing entrepreneurs. Some writers use one criterion while others

use multiple criteria to differentiate between various types of entrepreneur. A compilation of some of the entrepreneur typologies is presented in Table IV.1 (11). From this table we can conclude that there are enormous possibilities for classifying entrepreneurs and small firm ventures. In order to analyse the entrepreneurial types within a group of entrepreneurs, therefore, two aspects need to be clarified, namely:

- (1) the purpose of the analysis, and
- (2) the criteria used in classifying them.

The classification of entrepreneurs or small firms described by those writers mentioned in Table IV.1 does not deal primarily with entrepreneurs in a vertical linkage system.

As has been mentioned in Chapter II, one of the crucial issues concerning entrepreneurs in VMS is whether they are really entrepreneurs at all. In the discussion that follows the problems of classifying and defining entrepreneurs are examined, and the focus will be on clarifying the existence or absence of some key entrepreneurial aspects in this group, i.e. SBEs in VMS.

The terms entrepreneur and entrepreneurship have been used by many writers to represent a set of qualities, characteristics and functions of a man, a team, or an organization. The boundaries of the term entrepreneurship are not clear. The study of entrepreneurship has entered into many disciplines, for instance economics, sociology, and psychology. According to Shapero and Sokol 'entrepreneurship is a label for a profound and pervasive human activity that is of interest to many disciplines but is not encompassed by any one of them (12).'

Writers in this field have tried to describe the term entrepreneur and/or entrepreneurship in many different ways, for instance:

- (1) the function of the entrepreneurs,
- (2) the personal characteristics, and
- (3) the status/position.

The following are some examples of the work and descriptions about entrepreneurship according to those three classifications.

1. The Function of the Entrepreneurs

Kilby writes that the array of all possible entrepreneurial role encompasses as follows (13):

- the perception of economic opportunity
- technical and organization innovations
- gaining command over scarce resources
- taking responsibility for the internal management and for the external advancement of the firm in all its aspects.

TABLE IV.1 TYPOLOGY OF ENTREPRENEUR OR VENTURE TYPES

Author	Vesper (1980)	Susbauer (1979)	Scase & Goffee (1982)	Liles (1974)	Dunkelberg & Cooper (1982)
Emphasis	Entrepreneur types	A small firm typology	The entrepreneurial middle class	Kinds of venture	Small business owners
The basis for classification	Economic functions performed	Success	The difference in the relative mix of capital	The attractiveness as a career alternatives	The primary goals, management practices, and attitudes toward their firms
Classification: 1. The smallest or the least sophisticated 2. The middle type 3. The largest or the most sophisticated type	1. The solo self-employed 2. The team builders 3. The independent innovators 4. The pattern multipliers 5. The economy of scale exploiters 6. The capital aggregators 7. The acquires 8. The buy-sell artists 9. The conglomerators 10. The speculators 11. The apparent value manipulators Some of the middle types can move into more sophisticated type	1. The survival firm 2. The attractive growth potential firm 3. The underachieving: a. The conscious underachieving b. The unintentional underachieving 4. The high success growth firm	1. The self-employed 2. The small-employer 3. The owner-controller	1. The marginal firms 2. The attractive small company 3. The high potential venture	1. The craftsmen oriented 2. The independence oriented 3. The growth oriented

Some writers, such as Schloss (14), and Shapero and Sokol (15) prefer explicit mention of risk-taking as one of the entrepreneurial functions. According to Schloss, one of the entrepreneurial functions is that of financial entrepreneurship which is the willingness and ability to provide risk capital to a venture (16). Other writers, such as Schumpeter, tend to deny that financial risking is the function of the entrepreneurs. According to Schumpeter, the function of an entrepreneur is to carry out new combinations (17) and it is the capitalist who bears the financial risk (18). One may, however, be both an entrepreneur and a capitalist. Parallel with Schumpeter's tendency to single out one major function of an entrepreneur, some other writers, such as Casson (19) and Kierzner (20), tend to regard "opportunity seeking" as the entrepreneur's main function. While Collins and Moore (21), and Cole (22) define the major function of entrepreneur is the creation of organization. According to Cole, entrepreneurship is 'the purposeful activity (including an integrated sequence of decisions) by an individual or group of associated individuals, undertaken to initiate, maintain, or aggrandize a profit-oriented business unit for the production or distribution of economic goods and services (23).' For their studies both Norman Smith (24) and Komives (25) define an entrepreneur more shortly than Cole's as a man who initiates a firm.

According to Kilby, in any particular time and place one of the above-mentioned functions is critical in order for the entrepreneur to perform, while other functions may demand little attention or can safely be delegated to subordinates. Thus, different settings may call for markedly dissimilar entrepreneurial personalities (26). In channel of distribution systems there is a difference between the entrepreneurship of large resellers and that of the small ones. Large distributors, according to McCammon and Little, tend to be growth oriented and their decisions are based on economic criteria (27). While the small distributors have relatively static expectations. They are interested in reaching and maintaining a given scale of operation and are relatively uninterested in opportunities for growth beyond this point (28). Thus, on the basis of the other entrepreneurial functions mentioned above, for some writers these small distributors may not be considered entrepreneurs. Their function may be paralleled to that of branch managers, namely maintaining an on-going firm (29). While for some other writers these small retailers are still entrepreneurs provided that, as owner-managers of the firms, they started the venture. According to Norman Smith, even though an entrepreneur does not reach the state of aggrandizement, he is still nevertheless an entrepreneur. It may be that he represents a different type of entrepreneur (30).

Sexton summarizes the current conflicting views on entrepreneurship as follows:

"Entrepreneurship means many things to different people, as evidenced by the variety of current research. Some researchers regard almost anyone who starts a venture as an entrepreneur. Others prefer a much narrower definition, which includes risk and an innovative product or service. To some, risk is exclusively financial risk. To others, the risk of losing a position in a large firm satisfies this component. Some feel that innovation is a necessary element in entrepreneurship; others do not (31)."

The difficulty of defining whether someone is or is not an entrepreneur leads Shapero and Sokol choose to define 'entrepreneurial event' rather than entrepreneur as the unit of study (32). Harwood suggests abandoning the search for defining "entrepreneur" and instead considering the environmental variables that mould their behaviour and determine their range (33).

On the basis of the above discussions, in this study there is no attempt to draw strict lines so as to classify each SBE in the VMS in terms of entrepreneurial "function". Instead, this study to a large extent uses the ownership "status" of the SBEs to differentiate them from the non-entrepreneurs, e.g. managers. The reason for this is that many of the SBEs in VMSs are in the grey area in terms of their entrepreneurial functions, as discussed earlier. For some of the SBEs some of their supposedly entrepreneurial functions are in fact carried out jointly with or with a significant assistance from the main suppliers, such as the creation of the firm, the marketing or opportunity seeking, and the financial risk-taking. The criticism of the entrepreneurial function of the SBEs in VMS has been discussed in Chapter II. A further detailed description of entrepreneurship of the SBEs in this study is presented in the following sections.

2. The Personal Characteristics of the Entrepreneurs

Entrepreneurship is viewed by writers in this group as a personality characteristics, rather than as a situational circumstance or social function. That is not to say that the impact of situational factors is irrelevant, but that under similar situational circumstances some people will behave entrepreneurially while others will not. In other words, the personality potential is a necessary condition for entrepreneurial behaviour (34).

One of the most widely cited characteristics of entrepreneurs is the need for achievement, as defined by McClelland, which states that an entrepreneur tends to set his own objectives,

to accept responsibility, to be a moderate risk-taker, to look for immediate feedback, to be energetic, to be optimistically oriented towards the future, and to show unusual skill in organizing both work and people (35). According to Brockhaus, McClelland's work was a pioneering effort in the attempt to determine whether entrepreneurs tend to have a certain set of psychological characteristics (36). Some writers, such as Brockhaus (37) and Gasse (38) mention that entrepreneurs have been characterized as having an internal locus-of-control, that is, they believe their behaviour to be relatively decisive in determining their fate. According to Gasse, this concept, though closely related to the need for achievement, may be more promising than achievement motivation for identifying entrepreneurs (39). Hornaday compiles 42 characteristics often contributed to the entrepreneur (40). Meredith, Nelson, and Neck provide the following list of characteristics and traits of entrepreneurs (41).

THE CHARACTERISTICS AND TRAITS OF ENTREPRENEURS

<u>Characteristics</u>	<u>Trait</u>
Self-confidence	Confidence Independence, individuality Optimism
Task-result oriented	Need for achievement Profit-oriented Persistence, perseverange, determination Hard work, drive, energy Initiative
Risk-taker	Risk-taking ability Likes challenge
Leadership	Leadership behaviour Gets along well with others Responsive to suggestions, criticisms
Originality	Innovative, creative Flexible (oppeness of mind) Resourceful Versatile, knowledgeable
Future-oriented	Foresight Perceptive

Source: G.G. Meredith, R.E. Nelson, and P.A. Neck, 'The Practice of Entrepreneurship', International Labour Office, Geneva, 1982, p.3.

Meredith, Nelson, and Neck add that many of the traits listed above are closely interrelated. Not all entrepreneurs are alike, either in the above traits or in their personal qualities. There is unlikely to be any entrepreneur who rates highly in all 19 traits, but entrepreneurs are very likely to rate highly in most of them, especially self-confidence, risk-taking ability, flexibility, a strong need to achieve, and a strong desire to be independent (42). The weakness of describing entrepreneurs in terms of their personal characteristics, as mentioned above, is that those characteristics are not peculiar to entrepreneurs but may also apply to other groups such as managers. Also, there is a tendency to define entrepreneur too broadly by using the personal characteristics as the criteria. For example, according to Brockhaus in the 1965 study McClelland considered the following occupations entrepreneurial: salesman (except clerical sales), management consultant, fund-raiser, and officer of a large company, as well as actual owners of a business (43). Thus to accept a broad definition of entrepreneur or entrepreneurship may take the subject matter too far beyond its original anchorage in business enterprise.

In the preliminary survey, an investigation of the possibility of using a psychological test for measuring the entrepreneurial level of the SBEs was carried out. The McClelland and other's thematic apperception test (44) was administered to participants in several training programmes conducted by various agencies, e.g. the University of Indonesia. It was planned to produce a shorter version of this test, in the hope that it would be incorporated in the main study questionnaire. The investigation revealed that the above-mentioned test was not suitable for this study, for the following reasons:

- (1) The test could not significantly differentiate between manager and entrepreneur of small businesses in terms of their need for achievement scores.
- (2) No simpler version of the test could be produced.

Point (2) means that the administration of the test requires a classroom type of setting, which was impossible in this study.

No psychological test for measuring the SBE's personal characteristics has been carried out in the main study. Some entrepreneurial characteristics of the SBEs have been indirectly investigated by asking the main suppliers to evaluate SBE's activities/attitudes. As has been mentioned earlier in Chapter III, there have been difficulties in distinguishing between the SBE's and the supplier's activities in various entrepreneurial aspects such as the marketing and organization development of the SBE's business. Thus a direct investigation on the SBE's entrepreneurial characteristics, behaviour, and results in the establishment

under the VMS was distorted by the supplier's involvement. The supplier's evaluation of the SBE's entrepreneurship is presented in Table IV.2. In this table a comparison between suppliers' view of entrepreneurs in VMS and in independent systems is also presented.

From Table IV.2 we can conclude that the suppliers have evaluated the 'independent attitude' of the distributor both in VMS and in independent system as the highest among six entrepreneurial activities. This is quite in contrast with the activity of SBEs for developing the management of their businesses, and their initiatives in proposing improvements which have been evaluated as the poorest.

There is a significant contrast between the scores of the SBEs in the VMS and in the independent system with regard to their independent attitude, activity in enlarging their organization, and activity in developing their management. As expected, the SBEs in the independent system are generally rated more highly by the suppliers in terms of self determination and of trying not to depend on the supplier's help, as compared with those in VMSs. On the other hand, the SBEs in VMS generally tend to be more active in enlarging their organization and developing the management of their businesses as compared with those in the independent system.

On the whole (i.e. the SBEs in VMS and independent system), the SBE's entrepreneurial characteristics tend to be independent and opportunity seekers, and not so good at developing their management and enlarging their organization. This conclusion is similar to those of other writers, such as Mayer and Goldstein (45), Golby and Johns (46), and Deeks (47) with regard to the characteristics of small independent business entrepreneurs in general, namely:

- (a) to be independent (48),
- (b) to have a preference for maintaining the business at its existing level of activity (49), and
- (c) more concerned with short-term rather than with long-term objectives or results (50).

Deeks writes about small firms characteristics as follows:

"Day-to-day activities take precedence over long-term planning and long-term investment in capital or man-power is viewed as secondary to the achievement of short-term goals (51)."

It is worth noting that the majority of the SBEs in the VMSs studied here are basically not part-time entrepreneurs (52). The supplier's control compels them to pay full attention to the operation of their business establishments under the VMS agreement. Some SBEs (i.e. 14.3%), however, may have other sources of income from non-entrepreneurial activities (e.g. employment) and or informal businesses (e.g. part-time

TABLE IV.2

SUPPLIER'S EVALUATION OF DISTRIBUTOR'S ENTREPRENEURSHIP
IN VMS AND IN INDEPENDENT SYSTEM

(figures in percentages)

Some Key Activities of the Entrepreneurs	Channel System	Good %	Moderate %	Poor %	Missing %
1. Activity in looking for and making use of business opportunities	VMS	35.1	45.5	19.5	4.2
	Indep.	38.1	28.5	28.6	4.8
2. Activity in enlarging his organization	VMS	22.1	54.6	14.3	3.4
	Indep.	9.6	52.3	33.3	4.8
3. Activity in developing the management of his business	VMS	18.2	59.8	22.1	3.4
	Indep.	4.8	52.4	38.1	4.8
4. The use of profits and funds for investment	VMS	24.7	53.3	22.1	3.6
	Indep.	19.0	57.2	19.1	4.8
5. Self determination and not trying to depend on the supplier's help	VMS	39.0	53.3	7.8	4.1
	Indep.	81.0	9.5	4.8	4.8
6. Activity in proposing improvements	VMS	14.3	37.7	48.1	-
	Indep.	9.5	42.9	38.1	9.5

- Notes: - The n of VMS is 77 and of independent system is 21.
 - Item 1 to 5 are from Q.C, 2.
 - Item 6 is from Q.C, 1-d.
 - Some categories have been combined owing to the small response in those categories.

trading of other non-competing products) (see Q.B,38 and 39).

3. Entrepreneurs and their Status/Position (53)

As has been discussed earlier, a broader definition of entrepreneur and entrepreneurship tends to encompass various types of status beyond owning and managing a business. For example, Casson mentions the following diverse alternative forms of entrepreneurship:

- (a) private entrepreneur which consists of self-employed owner of firm, salaried manager, and financial speculator,
- (b) establishment entrepreneur,
- (c) political entrepreneur,
- (d) revolutionary entrepreneur, and
- (e) criminal entrepreneur (54).

In this study a narrower definition is used, the term entrepreneur denoting the owner-manager of a firm.

According to Brockhaus, most present day writers would consider the owner-manager of a business to be an entrepreneur, but would not include the person who provides capital without also managing the venture (55). Scase and Goffee define middle class entrepreneurs as those who own property which, together with their own and other's labour, they use for productive purposes (56).

In his study on African entrepreneurs, Diambomba defines entrepreneurs as people who operate, or are engaged in, independent business activities (57). He defends his definition against Schumpeter's, Hagen's and McClelland's notion that the entrepreneur is a special individual who initially possesses pre-determined characteristics. He writes as follows:

"In our sense, there is nothing generic about one's becoming entrepreneurial, and, so, the entrepreneur is a special individual only in the sense that he breaks away from the customary, and anybody who does that is considered as such regardless of the degree of success (58)."

In line with Diambomba's view that there is no initial pre-determined characteristics for someone to be entrepreneur, Lilies writes as follows:

"I have reached the conclusions that, given a degree of ambition and ability not uncommon to many individuals, certain kinds of experiences and situational conditions - rather than personality or ego - are the major determinants of whether or not an individual becomes an entrepreneur (59)."

In a VMS it is expected that the opportunity to start a business and the various types of assistance given by the supplier may turn someone into an entrepreneur, in the sense of owning and managing a business. Although in connection with status an owner-manager of a small business may be classified as an entrepreneur, he may still function, to a great extent, as a manager. McClelland explains the possibility to distinguish entrepreneurial status and role as follows:

"...if we adhere to the distinction between role and status, it is quite possible to conceive of a capitalist, or a manager, or a technical innovator who behaves either in an entrepreneurial or non-entrepreneurial way. There is no necessary one-to-one relationship between status and role (60)."

As has been mentioned earlier some writers, such as Deeks (61), Scase and Goffee (62), regard the ownership aspect as the major distinction between entrepreneur and manager. Basically an owner-manager of a small business operates in a market system where he is given an opportunity to maximize his returns, while many managers do not have that opportunity. As owners the entrepreneurs take full financial risks, while managers usually do not.

Do the SBEs in VMSs own their businesses? Do they have the opportunity to function as independent entrepreneurs? According to the suppliers (i.e. VMS leaders) these SBEs are independent in the sense that they are not the supplier's employees. As has been discussed in Chapter III, most of these SBEs felt that they have considerable autonomy in managing their workforces. Thus on the basis of those factors and others they may be regarded as entrepreneurs. In the following section, we will analyse the distributors' perceptions and conditions with regard to the channel members' entrepreneurship.

C. OWNERSHIP AND CONTROL

As has been mentioned earlier, the ownership aspect of the SBEs has made them differ in many respects with managers in general. A contrast between bureaucratic and entrepreneurial styles of management has been discussed, and Dailey's findings have been presented earlier in Table II.3. There are, however, autonomous managers (such as the top executives of large public companies) who develop 'felt-ownership' and display entrepreneurial behaviour. On the other hand, as has been discussed earlier, in the VMSs with a tight control system, 'felt-ownership' among the SBEs may be absent and such 'entrepreneurs' function more as managers. This study has attempted to reveal the scale of this phenomenon and its relationship to the VMSs.

1. Ownership Structure

The ownership aspect of the SBEs is investigated by asking them whether they are the owner of the establishment (see Q.B, 3). About 61 per cent say 'yes', 27.3 per cent say 'no', and 11.7 per cent are in doubt whether they are owners or not. There are two main reasons why these SBEs do not think they are the genuine owners of the establishment, namely:

- (1) the supplier plays a significant role in many key aspects of the SBEs' businesses so that they feel that they do not have adequate control over the main aspects of the business they conduct (see for example case 1138 mentioned earlier in Chapter III);
- (2) the business is owned by the family and no formal or clear ownership-right has been established. About 8% of the SBEs may belong to this group.

Some of those who own the establishment are sole owners (i.e. 51.9% of total SBEs) and the rest own the establishment jointly (i.e. 9.1%) with either other family members or with friends.

Those who feel that they do not genuinely own the establishment within a VMS arrangement may own other businesses outside the VMS (i.e. 10.4% of the total SBEs). Thus, 72.7% of SBEs own and manage business either within or outside VMS, and 27.3% of the SBEs studied do not feel that they own any business at all. There is considerable doubt whether those in the latter group are or are not entrepreneurs. A further analysis of the entrepreneurial aspects of this 'non-business owner' group will be presented in point 4.

2. Role in the Start-up Stage of the Establishment

There is a positive correlation between the absence of felt ownership and the absence of participation at the start-up stage. The detailed relationship between ownership and the role of the SBEs at the start-up stage is presented in Table IV.3. Owing to the smallness of the sample the 'business-starting role' variable has been regrouped into two categories, namely 'active' and 'passive' roles. This regrouping enables us to carry out chi-square test, and this shows that there is a significant difference (significant level = 0.0000) between the active and passive roles of starting the business with regard to 'felt-ownership'. In other words, those who actively start the establishment tend to feel that they own it, and on the other hand those who are passive tend to lack any ownership feeling.

TABLE IV.3

OWNERSHIP AND ROLE OF STARTING THE BUSINESS

Role of Starting the Business	Ownership Status				Row Total	
	Yes, Owner		No, I Doubt			
	x	%	x	%	x	%
I myself	23	29.9	1	1.3	24	31.2
Someone and I jointly	13	16.9	1	1.3	14	18.2
My parents	3	3.9	4	5.2	7	9.1
Someone else	8	10.4	24	31.2	32	41.6
Column Total	47	61.0	30	39.0	77	100.0

It is, however, very difficult to draw a line as to what is meant by active or passive roles in starting a business. For some, buying an existing firm may require such a lot of effort, money, and risks that they may consider it as starting a new venture, particularly if it is their first business. Thus buying an on-going business may mean 'starting' a new firm owing to the active role involved. On the other hand, it is very likely that in a highly assisted VMS a new entrepreneur need not undergo many difficulties in starting a new firm or invest a large sum of money and is well protected from serious risks. Some of these SBEs may have been recruited to replace other SBEs, and thus they see themselves as taking over an on-going operation instead of starting a new firm.

3. Ownership and VMS

There is a significant difference between VMSs with regard to the felt-ownership of the SBEs. A detailed description of the relationship is presented in Table IV.4. From this table we can conclude that the lack of felt ownership occurs mostly in VMSs with tight-control systems (i.e. VMS - 1 and 5). A further analysis at the individual SBEs level, with the Mann-Whitney U test, reveals the same result, namely there is a significant difference between those who have and those who do not have 'felt-ownership' with regard to the degree of supplier's influence. In other words, those who feel the lack of ownership tend to think that there is a high supplier's influence on their business operation, and those who feel that they are owners tend to think otherwise (the 2-tailed p is 0.0001).

TABLE IV.4

OWNERSHIP AND VMS

Types of VMS	Ownership Status				Row Total	
	Yes		No. Not Sure			
	x	%	x	%	x	%
VMS 1	8	10.4	14	18.2	22	28.6
VMS 2	9	11.7	3	3.9	12	15.6
VMS 3	13	16.9	1	1.3	14	18.2
VMS 4	12	15.6	3	3.9	15	19.5
VMS 5	5	6.5	9	11.7	14	18.2
Column Total	47	61.0	30	39.0	77	100.0

Chi-square = 18.61926

Significance = 0.0009

Cell with E.F. < 5 = 10%

4. The Entrepreneur and Non-entrepreneur Groups

On the basis of the definition of entrepreneur used in this study (i.e. an entrepreneur is someone who owns and manages a business) we may classify 72.7% of the SBEs studied as entrepreneurs and 27.3% as non-entrepreneurs. The existence of independent entrepreneurs within VMS has been

investigated and as has been mentioned earlier 44.2% of the SBEs have other income sources. Some in this independent group (i.e. 29.9% of the SBEs) have other businesses.

From the supplier's point of view, and also from the standpoint of the law, SBEs in the VMSs studied are not the supplier's employees. Thus we have a group of SBEs who are non-entrepreneurs but at the same time non-employees as well. Their main role, however, is that of conducting a business unit.

Stanworth et al. suggest that one should distinguish between the formal (i.e. the contractual relation) and operational (i.e. the day-to-day relation) levels of franchised small business entrepreneurial independence on the grounds that franchisee autonomy at either level may vary independently of the other (63). By using Stanworth and other's approach we may resolve the above mentioned dilemma, namely, at the formal level all of the SBEs studied are entrepreneurs, but at the operational level not all of them feel that they are entrepreneurs.

It is not the primary purpose of this study to solve this dilemma by providing new criteria for labelling each SBEs in terms of their entrepreneurial status or their personal characteristics or functions. The classification of SBEs into several categories used in this study should mean a temporary classification owing to the possible external influences and personal development of the SBEs concerned in the future. The analysis presented in this study leans more towards understanding the possible implications and estimating the scale of the existence of the entrepreneurial and non-entrepreneurial characteristics and situations of the SBEs in VMS.

As has been discussed earlier, the absent of felt-ownership on the part of the leader of a business unit may have deeper implications concerning his possible attitudes towards the work, the consumers, and other aspects of the job. Parallel with Wattel's view on the characteristics of franchises (64) the business behaviour of the SBEs who lack felt-ownership may not differ significantly from middle managers. They may far from having the characteristics of entrepreneurs. The absence of felt-ownership will probably not only give them a sense of not having entrepreneurial status but may also make them reluctant to perform entrepreneurial functions (e.g. opportunity seeking, risk taking, and organization building).

Further analysis reveals that part of the 'non-entrepreneurial' group identified (i.e. those who lack felt-ownership status) display non-entrepreneurial attitudes and live in a non-entrepreneurial climate. The following are the characteristics of this extreme non-entrepreneurial group (The size of this group is estimated 14.3% of the total SBEs):

- (1) They do not feel that they are owners.
- (2) They have no other sources of income.
- (3) They feel that without their suppliers they would not have been 'businessmen' as they are today.
- (4) They did not participate at the start-up stage.
- (5) They feel that their suppliers exercise a great influence upon their day-to-day business operations.
- (6) They are in VMSs with tight-control systems.

The above list of characteristics gives a strong foundation for regarding them as managers in profit-sharing schemes. It is very likely that this group represents the 'extreme dependent non-entrepreneurial' type of SBEs in VMS. What are the possible underlying factors associated with these characteristics?

On the basis of the sample used in this study, the members of this extreme group consist mainly of indigenous Indonesians from various ethnic groups, e.g. Javanese, Sundanese, Bataks, and Balinese. One may tend to think that the "non-entrepreneurial" characteristics of this group are deeply rooted in the individual characteristics of the persons involved, and that the ethnic factor may play an important part. But the data gathered in this study contradict such statements, on the basis that there is substantial evidence that independent types of entrepreneur are present in the indigenous group. In the analysis of the difference between the indigenous and non-indigenous group, which will be presented in the later part of this chapter, no significant difference was found with regard to their independent attitudes (see Table IV.13, items C3, D2, and E1).

On the basis of the previous discussions on the factors which lead someone to make entrepreneurial decisions, i.e. to form a company, we may assume that the entrepreneurial behaviour of someone is the product of both personal and environmental factors, or the "push" and "pull" factors. It is therefore very likely that in this extreme dependent non-entrepreneurial group one of the key contributing factors for their seemingly 'non-entrepreneurial' characteristics is the VMS itself.

The VMS (in positive or negative ways) may produce both the dependent and independent attitudes. From the statements of this group we may assume that for some of them their "non-entrepreneurial" characteristics are temporarily displayed while they are in an unfavourable vertical relationship conditions. They are in a situation where no other alternative is yet open but to comply. In fact, at least 50% of those belong to this group mention that they do not want to stay for ever in the vertical relationship system. The following are examples of their statement derived from question Q.B,17:

- "I want to have my own venture and for that purpose I save money." (case 1124)
- "I will use my relationship experience with this supplier to be an independent businessman." (case 1061)
- "I want to be an entrepreneur in...business." (case 1043 and 7095)
- "When the money I accumulate is sufficient I will have my own business, such as in the manufacturing of garments." (case 7130)

On the other hand, some of the members of this extreme group (i.e. 50%), as expected, would rather stay in the present system. According to some of them the main reason for them to stay is that the business is profitable enough. It is very likely that some other "push" or "pull" factors (such as the unemployment situation as discussed earlier) contribute to the decision to stay in the VMS for some of the SBEs.

On the basis of the foregoing discussions on the entrepreneurial aspects of the SBEs in VMS, we can make the following conclusions:

1. VMS may produce a wide variety of markedly different types of entrepreneur and non-entrepreneurs. At one extreme we may find an extreme dependent non-entrepreneurial type of SBEs who are happy and for the foreseeable future will stay in that system. At another pole we may find independent entrepreneurs who feel that the VMS has made them entrepreneurs, they want to stay within VMS, but at the same time make use of their entrepreneurial drive so as to engage in other independent ventures.
2. As far as the suppliers are concerned, there is a marked contrast in some entrepreneurial attitudes between the SBEs in VMS and in independent systems. In general, the SBEs in VMS tend to expand their organization and develop the management of their businesses more than do those in the independent system. On the other hand, as expected, the SBEs in the independent system tend to have stronger attitudes of self determination and of trying not to depend on the suppliers.
3. There is a significant difference between those who are active and those who are passive in starting-up the establishment with regard to their felt-ownership of the venture. Those who actively start the establishment tend to feel that they own it, while those who are passive tend to lack any ownership feeling. In the VMSs studied quite a substantial number of the SBEs (i.e. 41.6%) say that someone else, excluding their parents, started the establishments.
4. A SBE who operates under a tight-control supervision tends to have this lack of ownership feeling.

D. VMS AND ENTREPRENEURIAL CAREER

For a substantial number of SBEs (i.e. 57.1%) the benefit from being a member of a VMS outweighs many drawbacks they encounter, and thus they would choose the same supplier again if they were to repeat the experience. The possible benefits which can be derived from being a VMS member have been described earlier in Chapter III. One of the important questions with regard to the contribution of VMS to the development of SBE's entrepreneurship is whether VMS produces new entrepreneurs. The following is one of the possible analysis to approximate the scale of this phenomenon.

About 52% of the SBEs mention that they did not have experience as businessmen prior to running the establishment studied. It is, however, not clear whether those who say that they had experience as businessmen were entrepreneurs in the sense of owning and managing business units. As has been mentioned earlier, it is possible to be a formal entrepreneur without 'having' an enterprise at the operational level. In this analysis those who feel that they do not have business experience are assumed to be the potential target for the VMS to make into entrepreneurs, i.e. owner-managers.

As has been discussed earlier, not all of the SBEs feel that they are owners of the establishments and some of them do not have other businesses as well, and therefore they are not owner-managers. A further investigation reveals that 50% of those who do not have business experience (or 26% of total SBEs) say that they are owners, while the rest claim to be non-owners. Thus, approximately 26% of the total SBEs are new owner-managers of the establishment studied.

There are several comments regarding this 26% of total SBEs figure, namely:

1. It is very difficult to establish that the VMS is the only factor making these "non-experience" businessmen become new owner-managers. There is, however, a strong view that for some of the SBEs (i.e. 42.9%) they would not have been businessmen as they are today without the VMS. Besides VMS the other important contributing factors may include such as follows: the personal characteristics of the SBEs, the role of the family, store location, and as Charlesworth mentions, the general economic climate (65).
2. The "26% achievement figure" of the VMS to make new owner-managers do not, however, take into consideration the number of casualties, i.e. the drop outs and the "underdeveloped" group (see Figure III.1). According to one of the SBEs, as has been quoted earlier, the chance of becoming entrepreneur in VMS is 50%. For some of the SBEs the VMS suppresses their entrepreneurial spirit instead of developing it.

3. The 26% achievement figure may have to be increased by the number of SBEs who have other businesses outside the VMS. About 6.5% of the SBEs who do not have prior business experience, and do not feel that they are owners of the establishment under the VMS arrangement, mention that they have other businesses as additional sources of income. It is very likely that this group of SBEs have become independent entrepreneurs as a result of the "entrepreneurial spirit suppression" from being in the VMS, but at the same time they can make use of the positive factors of being members of VMS. It is, however, not clear whether those who have other business outside the VMS are the dominant figures in those ventures.

From the foregoing analysis we can conclude that a VMS may help the non-experienced SBEs in both positive and negative ways, to become new owner-managers. The exact figures of the number of SBEs in the VMS who have been turned into new entrepreneurs cannot be obtained owing to the unknown number of drop-outs, but for those who survive after three years in the VMS there are between 26% and 32.5%.

A further analysis of the similarities and differences between those who have or do not have business experience prior to running the establishment studied has been carried out by relating this "business-experience" variable with some other key aspects, namely VMS, relationship satisfaction, entrepreneur's characteristics, supplier's assistance, and supplier's characteristics. The result of the chi-square tests is presented in Table IV.5. From this table we can conclude that there is a significant difference between those who have or do not have prior business experience with regard to their membership number in various VMSs.

As has been discussed earlier in Chapter III, VMS - 1 tends to have distributors who do not have prior business experience, while VMS - 3 is the reverse, and other VMSs seem relatively unconcerned with regard to this aspect. There is, however, no pattern as to whether an inexperienced person will be a member of a tight-control type of VMS or the reverse.

With regard to other key aspects investigated (see in detail Table IV.5) there is no significant difference between those who have or do not have prior business experience. This includes the satisfaction of the suppliers. In other words, the supplier may feel equally satisfied with those who have or do not have prior business experience in terms of their performance. Thus business inexperience is not a crucial factor for anyone to perform well in a VMS.

One important question raised in Chapter I to be investigated in this study is whether those who do not have previous business experience feel that the suppliers has

TABLE IV.5

ANALYSIS OF SBE'S BUSINESS EXPERIENCE

Some Key Aspects	Significant Level
A. VMS	0.0458
B. RELATIONSHIP SATISFACTION	
1. Supplier's satisfaction	1.0000
2. Distributor's satisfaction	0.8735
C. ENTREPRENEUR'S CHARACTERISTICS	
1. Ethnic group	0.4411
2. Father's business background	0.0922
3. Independence of income sources	0.1463
D. SUPPLIER'S ASSISTANCE	
1. Supplier's significant help at the start	0.9545
2. Without the supplier he would not be entrepreneur	0.2773
3. Supplier's potential to develop entrepreneur	0.6233
E. SUPPLIER'S CHARACTERISTICS	
1. Supplier's position: above or equal	1.0000
2. Supplier's treatment: authoritarian or participative	0.8538
3. Supplier's selfishness	0.3703

- Notes: - Item B.1 is from questionnaire C, and the rest is from questionnaire B.
- The degrees of freedom is 1 except item A=4, and item D.3=2.
 - Figures are obtained after Yates correction, except items A and D.3

helped them to be businessmen, and without the supplier they would not have been businessmen as they are today. It is interesting to note that there is no significant difference between those who have and do not have prior business experience with regard to this issue (see Table IV.5, D2). Thus business experience is a factor which is not significantly related to the independent attitude in terms of business career development. The existence of independent types of entrepreneur in this SBE's group has been analysed earlier. In the group without business experience there are also this independent type of entrepreneurs. On the other hand, there are also SBEs who feel that they depend to a large extent upon their supplier's assistance in order to become businessmen. The relationship between business experience and the role of the supplier in making them entrepreneurs is presented in Table IV.6. From this table we can conclude that 50% of those who do not have business experience feel that without the supplier they would not have been businessmen (i.e. \pm 26% of total SBEs).

TABLE IV.6

BUSINESS EXPERIENCE AND SUPPLIER'S ROLE TO MAKE SBEs ENTREPRENEURS

Business Experience	Without the supplier he would not be entrepreneur				Row Total	
	Agree		Disagree		x	%
	x	%	x	%		
Has experience	24	31.2	13	16.9	37	48.1
No experience	20	26.0	20	26.0	40	51.9
Column Total	44	57.1	33	42.9	77	100.0

After Yates correction:

Chi-square = 1.18036

Significance = 0.2773

From the foregoing we can form the following conclusions with regard to the non-business experience group in VMS:

1. VMS may serve as a way for those who do not have business experience to become entrepreneurs. There are 51.9% SBEs without business experience in the VMS studied, and between 26% and 32.5% of the total SBEs have been turned into new owner-managers by the VMSs. The VMS may not,

however, be the only factor contributing to this achievement.

2. As has been discussed in Chapter III, there is no pattern as to whether a distributor without prior business experience is likely to be a member of a tight-control type of VMS or the reverse.
3. About 50% of those who do not have prior business experience feel that without the supplier's assistance they would not have been businessmen as they are today.
4. Those who do not have prior business experience can perform just as well as those who have it.

E. VMS AND FATHER'S BUSINESS BACKGROUND

The relationship between one's father's background and one's entrepreneurship has been studied by some writers, such as Alexander (66) and Collins and Moore (67). Shapero and Sokol write that the family (particularly the parents) plays the most powerful role in establishing the desirability and credibility of entrepreneurial action for an individual (68). The importance of childhood experience in the development of someone's entrepreneurship has been stressed by Schollhammer and Kuriloff (69), and Collins and Moore (70). Schollhammer and Kuriloff write that 'children develop high n Ach when required to meet reasonably high standards of achievement somewhere between the ages of six and eight. This age-span seems to be that in which the psychological set of high standards of achievement is successfully developed (71).' Although there is a strong correlation between childhood experience and entrepreneurship, this relationship is not always clear. Collins and Moore write as follows:

"A man's projection and creation of a firm is necessarily an extension of his early training and experience, but it is not always easy to find the connection (72)."

McClelland considers that the prime determinant of child-parent relationship is the parents' religious world view, and the father's occupation is less important (73). As has been mentioned in Chapter I, Alexander writes that more industrialists have been recruited from the ranks of merchants than from any other group (74). Thus the parents' occupation may influence one's entrepreneurial career. Collins and Moore find that men who create their own businesses are drawn largely from walks of life which are not part of the bureaucratic world of established prestige and power (75).

In this study, the focus of investigation is to find out whether those who come from families without business background differ significantly with those from business background with regard to some key aspects, namely types of VMS, relationship satisfaction, entrepreneur's characteristics, supplier's assistance, and supplier's characteristics. The father's business background has been used as the indicator for the family's business climate. The use of the father's business background has, however, some weaknesses, as follows:

(1) The father is not always the dominant figure in the child's education. The following table explains the role of the father, mother and other person's influence on the SBE's prior work education (see Q.B, 40).

TABLE IV.7

INFLUENCE DURING CHILDHOOD AND ADOLESCENCE

	<u>Yes</u>	<u>No</u>
Father	87.0%	13.0%
Mother	76.6%	23.4%
Someone else	26.0%	74.0%

From Table IV.7 we can conclude that the father is regarded as the most influential figure in their childhood and adolescence by many of the SBEs. There are, however, other persons who may influence their pre-work education period, such as their mothers.

(2) There are possibilities that mother is the one who has business activities, while the father has not. A cross-tabulation of the father's and the mother's business background is presented in Table IV.8. There are 8.2% of valid observations confirm this case. There is, however, no confirmation as to whether the SBEs are influenced by their mothers more than their fathers in this case.

TABLE IV.8

FATHER'S AND MOTHER'S TYPE OF OCCUPATION

Father's Occupation	Mother's Occupation						Row Total	
	Business Woman		Career Woman		House-Wife		x	%
	x	%	x	%	x	%		
Businessman	21	28.8	-	-	26	35.6	47	64.4
Self-employed	3	4.1	6	8.3	3	4.1	12	16.4
Employee	3	4.1	2	2.7	9	12.3	14	19.2
Column Total	27	37.0	8	11.0	38	52.1	73	100.0

Missing cases = 4

- Notes:
- Businessman/woman is someone who has a business and manage it. The business may be owned and managed jointly with other persons. He/she relies both on his/her skills and capital for the success of the venture.
 - Self-employed persons are those who rely more on skills rather than capital to earn their living outside the employment status.
 - Career woman works either as skilled labour, employee or other occupations outside owning and managing a business.
 - Employee works for other organizations.
 - Housewife has no other activities except taking care of the family.

Despite some weaknesses, the father's occupation, as mentioned earlier, is often used by researchers as a variable to be investigated which may influence attitudes. It is assumed that the father's business occupation influences one to perform better in one's business career, owing to the early childhood family climate. But in a VMS, which may provide extensive assistances, this factor may not become a crucial factor for those who happen not to have families with business backgrounds. As has been mentioned in Chapter I, the focus of this study is to investigate as follows:

- (1) whether VMS provide a way to business careers for those whose fathers do not have business occupations,
- (2) whether this group feel that they have been turned into businessmen, and
- (3) whether this group performs well.

The relationship of the father's business-background variable with the same key aspects investigated in this study is presented in Table IV.9.

TABLE IV.9

ANALYSIS OF FATHER'S BUSINESS BACKGROUND OF THE SBEs

Some Key Aspects	Significant level
A. VMS	0.0125 *
B. RELATIONSHIP SATISFACTION	
1. Supplier's satisfaction	0.9098
2. Distributor's satisfaction	1.0000
C. ENTREPRENEUR'S CHARACTERISTICS	
1. Ethnic groups	0.0016
2. Business experience	0.0922
3. Independence of income sources	0.4799
D. SUPPLIER'S ASSISTANCE	
1. Supplier's significant help at the start	0.0197
2. Without the supplier he would not be entrepreneur	0.0011
3. Supplier's potential to develop entrepreneurs	0.3522 *
E. SUPPLIER'S CHARACTERISTICS	
1. Supplier's position: above or equal	1.0000
2. Supplier's treatment: authoritarian/participative	0.4274
3. Supplier's selfishness	0.8768

Notes:

- Item B.1 is from questionnaire C, and the rest is from questionnaire B.
- The degrees of freedom is 1, except item A=4 and item D.3=2.
- Figures are obtained after Yates correction, except items A and D.3.
- * The percentages of cells with E.F. <5 in item A is 30% and in item D.3 is 16.7%.

From this table we can form the following conclusions:

1. The Father's Background and Ethnic Group

There is a significant difference between the group whose fathers are businessmen and those whose fathers are non-businessmen with regard to the ethnic group. Those whose fathers are businessmen tend to be non-indigenous, while those whose fathers are non-businessmen tend to be indigenous. The detailed picture of this relationship is presented in Table IV.10.

TABLE IV.10

FATHER'S BACKGROUND AND ETHNIC GROUPS

Father's Background	Ethnic Groups				Row Total	
	Indigenous		Non-Indigenous		x	%
	x	%	x	%		
Businessman	19	25.7	29	39.2	48	64.9
Non - businessman	21	28.4	5	6.8	26	35.1
Column Total	40	54.1	34	45.9	74	100.0

After Yates correction:

Chi-square = 9.92008
 Significance = 0.0016
 Missing = 3

2. Supplier's Significant Help at the Start-up Stage

The majority of those whose fathers were not businessmen feel that their suppliers have helped them significantly at the start-up stage, while only a few of them feel otherwise. A detailed relationship between the father's background and the supplier's help at the start-up stage is presented in Table IV.11. From the foregoing we can conclude that VMS have played a part in helping those who do not have families with business backgrounds to start their venture, and it is very likely that those who have families with business backgrounds may rely primarily on their families. Because the majority of the indigenous group do not have business backgrounds, VMS may play an important role for this group. As can be seen in the later analysis, there is a significant difference between the indigenous and non-indigenous group with regard to significant help from the supplier at the start-up stage. The majority of the indigenous SBEs feel that their suppliers have helped them significantly at the start-up stage (Table IV.18).

TABLE IV.11

FATHER'S BUSINESS BACKGROUND AND SUPPLIER'S HELP AT THE START

Father's Background	Supplier's Help at the Start				Row Total	
	Help Significantly		No or Not Much Help			
	x	%	x	%	x	%
Businessman	22	29.7	26	35.1	48	64.9
Non - Businessman	20	27.0	6	8.1	26	35.1
Column Total	42	56.8	32	43.2	74	100.0

After Yates correction:

Chi-square = 5.43541
 Significance = 0.0197
 Missing = 3

3. Father's Background and SBE's Entrepreneurship

From Table IV.9 we find that there is a significant difference between those with fathers who were businessmen and those without with regard to the supplier's role in developing their entrepreneurship. The majority of those whose fathers were not businessmen (i.e. 69.2%) agree with the statement that without their suppliers they would not have been businessmen as they are today. The detailed picture of the relationship between the father's background and the supplier's role to make them entrepreneurs is presented in Table IV.12. This finding supports the earlier conclusion that a VMS may play an important role in making those whose families do not have business backgrounds into businessmen.

TABLE IV.12

FATHER'S BACKGROUND AND SUPPLIER'S ROLE TO MAKE SBEs ENTREPRENEURS

Father's Background	Without the supplier he would not be entrepreneur				Row Total	
	Disagree		Agree		x	%
	x	%	x	%		
Businessman	35	47.3	13	17.6	48	64.9
Non - Businessman	8	10.8	18	24.3	26	35.1
Column Total	43	58.1	31	41.9	74	100.0

After Yates correction:

Chi-square = 10.63665
 Significance = 0.0011
 Missing = 3

4. Non-business Family Background and Performance

From Table IV.9 we can conclude that there is no significant difference between SBEs with fathers who were businessmen and those without with regard to their performance (see Table IV.9, B1). The supplier may be equally satisfied with those who have or do not have families with business backgrounds, as represented by their fathers business occupation. Thus we may conclude that VMS is not only a way to business career for those who do not have families with business backgrounds but also may turn them into businessmen with performances equal to those who have families with business backgrounds. Since those who do not have families with business backgrounds are mostly the indigenous group, this conclusion may apply for this indigenous group as well. A further analysis of the differences and similarities between ethnic groups is presented in the following section.

5. The Father's Business Background Variable and Other Aspects Investigated

From Table IV.9 we can conclude that there is no significant difference between those whose fathers are businessmen and those whose fathers are not with regard to some other key aspects previously discussed, such as their satisfaction with the supplier, independence of income sources and their opinion with regards to supplier's characteristics.

F. VMS AND ETHNIC GROUP

As has been discussed earlier in Chapter I, many writers have contrasted the entrepreneurship of the non-indigenous group (i.e. the Chinese) with that of the indigenous group, and the conclusion is that the non-indigenous group has greater entrepreneurial acumen. The main reasons for this is not only that they come from a society which has developed advanced entrepreneurial skills, but also because this group is socially and psychologically in a minority situation. Shapero and Sokol write that 'the historical records demonstrate that refugees are more likely to start businesses than they would have been had they remained in their home countries (76).' They add further that 'overseas Chinese are heavily engaged in business wherever they are found (77).'

A further analysis about the Indonesian Chinese reveals, however, that there are two types of Chinese, namely "Totok" and "Peranakan" depending on the degrees of assimilation into the indigenous Indonesian communities. In this study no distinction is made between these two groups of Chinese. Also the various indigenous ethnic groups are treated as one group, although there may be some differences in their entrepreneurial acumen, as mentioned in Chapter I.

With regard to the sample's ethnic group the following is the breakdown:

(1) Jawa and Sunda	= 35.1%
(2) Other indigenous ethnic groups	= 19.5%, and
(3) Chinese	= 45.5%.

Some of them would rather considered themselves as having been educated in a modern way instead of in the traditional way of the ethnic groups to which they belong (see Q.B, 46).

The relationship between ethnic group and other key aspects investigated in this study is presented in Table IV.13. From this table we can make the following conclusions:

1. Ethnic Group and VMS

There is a significant difference between indigenous and non-indigenous group with regard to the types of VMS. From the previous analysis presented in Chapter III we find that the indigenous group tends to be in a tight-control type of VMS and that the non-indigenous are members of the loose-control type of VMS.

TABLE IV. 13

ANALYSIS OF SBE'S ETHNIC BACKGROUND

Some Key Aspects	Significant Level
A. VMS	0.0000
B. RELATIONSHIP SATISFACTION	
1. Supplier's satisfaction	0.8818
2. Distributor's satisfaction	0.7221
C. ENTREPRENEUR'S CHARACTERISTICS	
1. Father's business background	0.0016
2. Business experience	0.4411
3. Independence of income sources	0.3458
D. SUPPLIER'S ASSISTANCE	
1. Supplier's significant help at the start	0.0000
2. Without the supplier he would not be entrepreneur	0.2476
3. Supplier's potential to develop entrepreneurs	0.1862
E. SUPPLIER'S CHARACTERISTICS	
1. Supplier's position: above or equal	0.5108
2. Supplier's treatment: authoritarian or participative	0.7827
3. Supplier's selfishness	1.0000

- Notes : - Item B.1 is from questionnaire C, and the rest is from questionnaire B.
- The degrees of freedom is 1 except item A=4, and item D.3=2.
- Figures are obtained after Yates correction, except items A and D.3

2. Ethnic Group and Father's Background.

There is a significant difference between the indigenous and the non-indigenous group with regard to the father's background. From the analysis presented in the previous section we find that there is a tendency that those whose fathers are not businessmen tend to be from the indigenous group. This, however, does not mean that the indigenous group tend to have fathers who are non-businessmen. In the VMS studied the probability of the indigenous group's tending to have fathers who are non-businessmen seems to be almost the same as that of their having fathers who are businessmen (see Table IV.10). This picture contrasts with that of the non-indigenous groups, which tends to have fathers who are businessmen. Thus, with regard to the indigenous group of SBEs in VMS we may conclude that there is no certainty whether their fathers are or are not businessmen, while in the non-indigenous group there is a high probability that their fathers are businessmen.

What are the possible implications for VMS of having indigenous SBEs whose fathers are not businessmen? In the previous discussion some characteristics of this group have been found. For example, the majority of those whose fathers are not businessmen tend to depend on the supplier for their business career development (see Table IV.12).

It is interesting to know, however, that the indigenous group does not differ significantly from the non-indigenous with regard to their views on the role of the supplier in developing them to be businessmen as they are today. This means that a significant percentage of this group (i.e. 50%) feel that they have been able to become businessmen without significant help from the supplier. Thus the major contributing factor for the feeling of dependence on the supplier for business career development is not the ethnicity but the fathers lack of business background. On the other hand, even though many of the indigenous do not feel dependent on the supplier for their current business career they depend significantly on the supplier to start the establishment. This aspect is discussed below.

3. Ethnic Group and Supplier's Help at the Start

From Table IV.13 we find that there is a significant difference between the indigenous and non-indigenous groups with regard to their views about the supplier's help at the start of the establishment. The majority of the indigenous group (80.9%) feel that the supplier helped them significantly at the start of their establishment. On the other hand, the majority of the non-indigenous group (i.e. 68.6%) feel otherwise.

4. Ethnic Group and Other Key Aspects Investigated

The chi-square tests reveal that there is no significant difference between the indigenous and non-indigenous groups with regard to other aspects investigated earlier, such as with regard to their satisfaction with the supplier, business experience, independence of income sources, etc. (see Table IV.13 for detail).

Does VMS serve as a way for the indigenous group to become businessmen? And does this indigenous group perform well? As has been mentioned earlier in point 2, 50% of the indigenous group feel that without the supplier they would not have been businessmen as they are today. Unfortunately, not all of them become entrepreneurs (i.e. owner managers). A further analysis reveals that 21.4% of the indigenous group not only feel that they have been turned into businessmen but also are owners of businesses within or outside VMSs. On the other extreme 42.9% of the indigenous group do not feel that they are owners of any business unit within or outside VMS.

With regard to the non-indigenous group the following is the picture: 34.3% of the non-indigenous group feel that without the suppliers they would not have been businessmen as they are today. About 28% of the non-indigenous group not only feel that they have been turned into businessmen but are also owners of businesses within or outside VMSs. On the other extreme 11.4% of the non-indigenous group do not feel that they are owners of any business unit within or outside VMS.

From the foregoing we can conclude that although in terms of percentage more of the indigenous group feel that they have been turned into businessmen by the suppliers as compared with the non-indigenous, but less of the former group felt themselves to be business owners. More of the indigenous group are in fact non-entrepreneurs than the non-indigenous are. The primary reason for the non-indigenous group lacking felt-ownership is the ambiguity of ownership right in a family business, while for the indigenous group is the tight-control system exercised by the suppliers. A comparison between the indigenous and non-indigenous group in terms of ownership is presented in Table IV.14, and with regard to the role of the supplier to make them entrepreneurs is presented in Table IV.15.

There is no significant difference between the indigenous and the non-indigenous groups with regard to their performances, as far as the suppliers are concerned. It should be noted, however, that the majority of the indigenous SBEs are in the tight-control type of VMS, while the non-indigenous are in the loose-control type. Thus although these two "ethnic" group's performances seem to be equal they are mostly in two different types of VMS.

TABLE IV.14

ETHNIC GROUP AND OWNERSHIP

Ethnic Groups	Ownership Status				Row Total	
	Yes, Owner		No, I Doubt			
	x	%	x	%	x	%
Indigenous	21	27.3	21	27.3	42	54.5
Non - Indigenous	26	33.8	9	11.7	35	45.5
Column Total	47	61.0	30	39.0	77	100.0

After Yates correction:

Chi-square = 3.76854
Significance = 0.0522

TABLE IV.15

ETHNIC GROUP AND SUPPLIER'S ROLE TO MAKE SBES ENTREPRENEURS

Ethnic Groups	Without the Supplier he would not be Entrepreneur				Row Total	
	Disagree		Agree			
	x	%	x	%	x	%
Indigenous	21	27.3	21	27.3	42	54.5
Non - Indigenous	23	29.9	12	15.6	35	45.5
Column Total	44	57.1	33	42.9	77	100.0

After Yates correction:

Chi-square = 1.33681
Significance = 0.2476

In summary, a significant part of the indigenous SBEs (69%) tend to be members of tightly-controlled VMSs (see Table III.16). Fifty per cent of them, however, became leaders of business units without entrepreneurial status and function as far as they themselves see it (see Table IV.14). As compared with the non-indigenous, there is a tendency on the part of the indigenous group to depend more on the supplier for their business career development (see Table IV.15), and in particular in starting their ventures (see Table IV.13, D.1). The performance of the indigenous group, however, does not differ significantly from that of the non-indigenous as far as the suppliers in their respected VMSs are concerned (see Table IV.13, B.1).

A. INTRODUCTION

This chapter combines the various findings and conclusions discussed in the previous chapters, in order to clarify the major contributions to be expected from vertical marketing systems. As has been discussed in Chapters I and II, VMSs are relatively new business techniques for Third World countries. Vertical linkage systems were developed in industrialized countries in order to handle large-scale operations as part of the dynamic of free market competition, the sophistication of demand, and the development of technology in production and distribution. In LDCs, the production and distribution of local consumer products are mostly handled in a fragmented way by small independent business units.

As part of the modernization process of LDCs, new methods of doing business are required. The modern business techniques developed in the West, however, are not always suited to the socio-cultural conditions in developing countries. The VMS has been chosen for analysis in this study because it promises many advantages to large and small business, to consumers, and to society at large. It is assumed that this system may contribute to reducing some of Indonesia's socio-economic problems. This chapter focuses on clarifying the contribution of VMS to the development of entrepreneurs.

The first part of this chapter analyses the following two issues:

1. Can VMSs accommodate independent entrepreneurs, or do asymmetrical relations of this type produce dependent entrepreneurs only?
2. Do VMSs serve as pathways for groups in society whose members may be at a disadvantage in terms of entrepreneurship?

In the later part of this chapter some recommendations are put forward. Despite great optimism as to the possible contribution of VMSs, there are problems which have to be taken into consideration.

One additional relevant area which is not adequately investigated in this study and therefore is suggested for further research is the "drop-out" group. Further research on this group, for example with regard to its size and the positive or negative effects that VMS has had upon them, may add further important information. Thereupon we can base a more thorough conclusion about the contribution and effect of VMS.

B. INDEPENDENT ENTREPRENEURS IN VMS

It is assumed that more entrepreneurial functions (e.g. opportunity-seeking, innovating, risk-taking, and organization-building) can be performed by entrepreneurs in independent situations than by those who perceive themselves to be constrained by an external power. The existence of the influence of large firms on SBEs in the VMSs studied has been measured, and the result shows that the degree of influence in these VMSs differs significantly from that in the independent system (see Table III.13). The impact of this influence on some of the SBEs is very much felt. For example, there is a dependence situation which is reflected in the inability of some of the SBEs (about 18%) to state their plan or wish to grow, because in their view growth depends on the supplier's future products and marketing plans. With few exceptions, there are significant differences between VMSs with regard to the extent of the supplier's influence (see Tables III-10 to 13).

1. The Existence of Independent Entrepreneurs in VMS

Small business entrepreneurs' independent status and attitudes are difficult to measure (1). These entrepreneurs are independent only of one thing, namely the employer. In every other respect they are influenced as much as an employee (for example: by suppliers, customers, bankers, and landlords). Several approaches have been used in this study in order to find out the presence of independent entrepreneurs in VMS, namely (1) the independence of sources of income, (2) other business activities, (3) the perception of independence of the supplier's help in the development of their business career, and (4) the perception of the absence of the asymmetrical business relationship with the large firm.

The following are some of the major findings:

- a. About 39% of the distributors who are under exclusive distributorship arrangements with suppliers have other sources of income (Notes: about 78% SBEs are under exclusive distributorship arrangements). This means that a sense of independence of income prevails among some of the SBEs under tight-control VMSs. At the other extreme, 61% of the distributors under the above mentioned arrangement have no other income outside the establishment studied, and they depend to a large part or even up to completely on the main supplier as their source of business (see Table III.3). Thus both independent and dependent entrepreneurs exist in VMS.
- b. It was at first expected that the distributors (as individuals and not as a group) were in a vertical or asymmetrical type of relationship with the supplier. This

asymmetrical assumption is in line with the view that a franchisor-franchisee relationship is essentially a channel of distribution with a unilateral dependency relationship (2). This study reveals, however, that 37.7% of the distributors do not feel that any inequality with the supplier exists, and further more 6.5% of the distributors feel that they need the supplier less than the supplier needs them (see Table III.5). A further investigation by using symbols to represent the position of the supplier as compared with the distributors supports the above finding. About 40% of the distributors consider themselves to be on an equal level with their large-firm suppliers (see Table III.6). Thus we can conclude that in a VMS a great many of the SBEs do not perceive the existence of an asymmetrical relationship. However, the existence of the asymmetrical relationship is confirmed as can be inferred from the tables mentioned above (i.e. Tables III. 3,5, and 6), and as well, from the list of SBE's comments as presented in Chapter III, section C. Those who feel that the relation is asymmetrical say that their relationships with the large firm are like those between subordinates and their bosses, while those who feel that a symmetrical relationship exists say that their relationships with their suppliers are like those between partners.

- c. A cross-tabulation between the distributor's income independence and their satisfaction with the supplier reveals that the majority of the "independent" entrepreneur group are satisfied with membership of VMS (i.e. 56% of independent entrepreneurs or 25% of total SBEs. See Table III.9). Thus a VMS is a relationship system where quite a number of independent entrepreneurs can exist and be satisfied.
- d. A further analysis of the existence of independent entrepreneurs in various types of VMS reveals that the SBEs who have the urge to be independent in terms of sources of income exist in all the various types of VMSs studied. Thus the type of VMS does not significantly determine their presence. The factors which support the existence of independent entrepreneurs in the tight-control type of VMS are explained in the next section. The detailed relationship between SBEs independence and the type of VMS is presented in Table III.19.
- e. In this study, in addition of the approaches mentioned earlier, the existence of independent attitudes among SBEs is measured in terms of independence of entrepreneurial career. The independent attitude of the SBEs in this aspect is investigated by enquiring whether they agree or disagree with the statement that without the supplier they would not have been able to become the businessmen that they are today (see Q.B.52). This study reveals that 57.1% of the SBEs feel that they are

independent of the large firm with regard to their efforts to be businessmen. This view is mostly expressed by SBEs in the loose type of VMS. The detailed picture of the relationship between VMSs and the supplier's role in fostering entrepreneurship is presented in Table III.21.

On the basis of the foregoing approaches, this study reveals that both "dependent" and "independent" entrepreneurs are members of VMS channel. About 25% of total SBEs are independent entrepreneurs who like to be in the VMS. Independent entrepreneurs can exist in all types of VMS studied.

2. Factors that Support the Existence of Independent Entrepreneurs

This study has established the existence of independent entrepreneurs in VMS (see point 1 earlier). About 56% of the members of this independent entrepreneurs group were satisfied with being members of VMSs (see Table III.9), even though the suppliers may have imposed operational control over them and thus they may have had to conform to the large firm's regulations in various activities. The following are factors discovered in this study which can explain the existence of independent entrepreneurs in VMSs.

a. The ability to delegate non-entrepreneurial activities.

It is very likely that their ability to delegate most of the non-entrepreneurial tasks to their family members or employees (and thereafter control them) gives them the opportunity to use their time and talent on some other more entrepreneurial activities. Some of them mentioned that the key to their success is their ability to train "lieutenants" both for their businesses in the VMS and outside. The fact that 44.2% of SBEs have other sources of income and 29.9% who own other businesses supports this conclusion.

b. The unique benefits from being members of VMS.

What are the motives of the independent entrepreneurs for joining VMSs? There may not be one single reason, for analysis of the existence and usefulness of supplier's assistance reveals that many benefits flow from membership of a VMS. For example, the following are the four main activities or resources of the large firms which are highly useful for the SBEs: (1) trade and brand name, (2) marketing and selling strategy, (3) administration system), and (4) supervisory visits. The supplier's trade and brand name is considered the most useful resource provided by the large firm. For the independent entrepreneurs, in addition to other benefits, the supplier's name helps them to gain access to third parties (such as banks), while for the dependent entrepreneurs the name means primarily a guarantee of having a sufficient number

of customers. A number of SBEs have explained (as presented in Chapter III, section H.3) that the suppliers' assistance has benefited them not only as to their businesses within the VMS but also in other ventures. The various forms of supplier assistance, as partly listed in Table III.25, may not be available or easily obtained from other sources, for example the reputation acquired from being member of a VMS.

- c. The development of interdependence between the SBEs and the large firm.

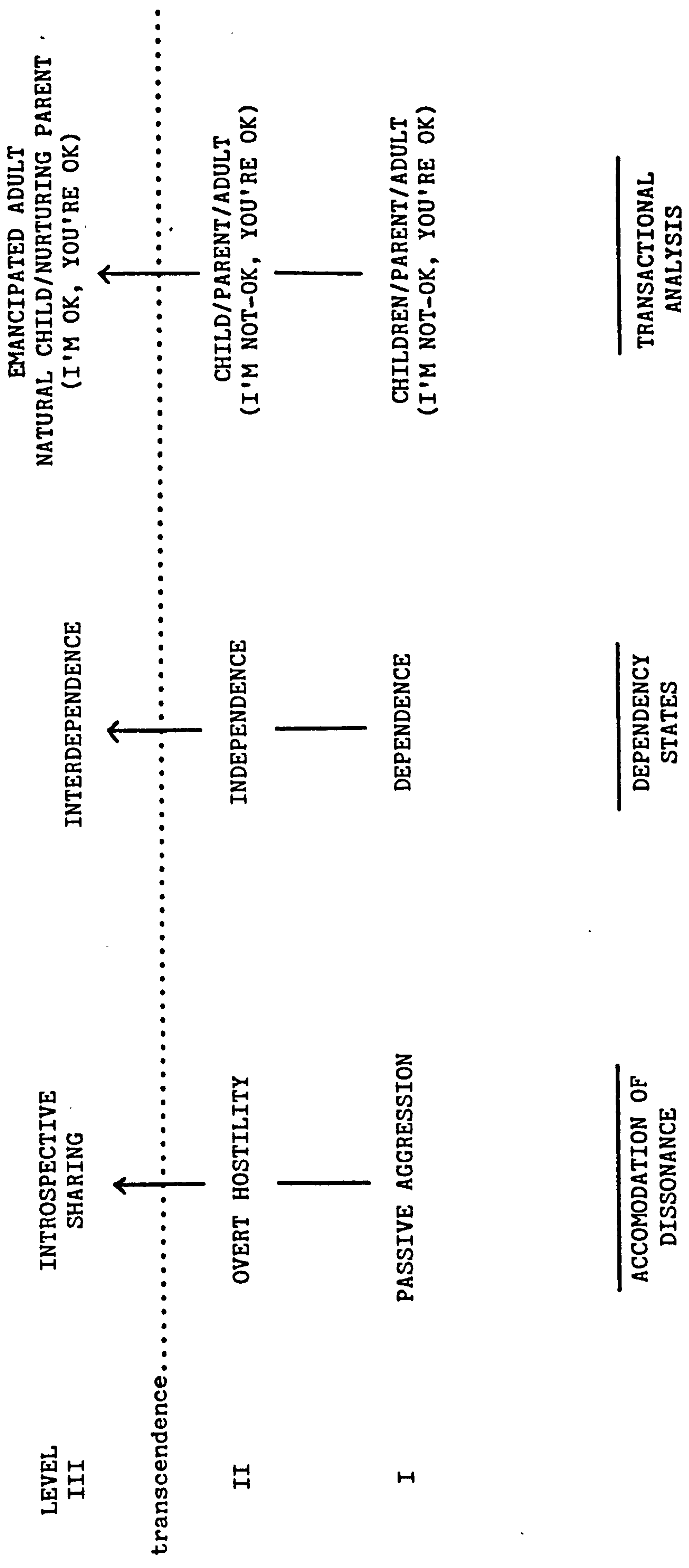
The relationship between a SBE and his large firm partner is not static. This study reveals that the SBE's perception of the large firm's influence on or involvement in the former business varies widely among SBEs in a VMS (see Table III.12). It is safe to assume that the longer a distributor develops his business (and therefore his business skills, customer contacts, etc.), the greater his chances of becoming indispensable for distributing the supplier's products in a particular market. Also, there are distributors who have skills, capabilities, and facilities (e.g. store location) which the supplier cannot easily obtain from other sources. Thus there is a situation of interdependence, namely one party is sometimes dependent and sometimes depended-upon.

One of the possible approaches in order to view the growth of SBEs' maturity in their relationship with the supplier is by using the personal growth model (or transcendence model) developed by J.W. Pfeiffer (3). This model identifies three distinct state or levels of individual growth. Pfeiffer sees individuals as capable of moving from a state of passive aggression (dependence), progressing through open expression of hostility and other strong emotions (independence), and finally transcending to a more constructive response pattern, introspective sharing or interdependence. A summary of the transcendence models is presented in Figure V.1. At the interdependence level, an individual become unlocked from his compulsions toward suppression or expression, dependence or independence. He is able to depend upon others and have them depend upon him in accordance with mutual needs and desires. According to Pfeiffer, an individual cannot move directly from level I (dependence) to level III (interdependence). The ability to deal effectively with strong emotions cannot come until the person has experienced and learned to cope with full expression. He cannot interact with others in an interdependent way until he has experienced and explored independence.

Parallel with the above theory, this study reveals three types of vertical relation in VMS, namely:

FIGURE V. 1.

TRANSCENDENCE MODELS



Source: J.W. Pfeiffer. Transcendence Theory, in J.W. Pfeiffer et. al. (eds.), The 1972 Annual Handbook for Group Facilitators, University Press, La Jolla, California, 1972, p. 184.

(1) The pure vertical relationships.

Twenty one percent of the distributors belong to this group. In this group the distributors consider the supplier to be on a higher level, and correspondingly they think that the supplier treats them as children who are expected to follow (see Table III.6). We can expect that those who depend on one main supplier for their source of income and are satisfied to be members of the VMS belong to the level I state (see Figure V,1 and Table III.9).

(2) The pure adult relationship.

About 21% of the SBEs belong to this group, in which they consider the supplier to be at the same level as themselves, and correspondingly they think that the supplier treats them as adults by encouraging participation. We can expect that this group has reached the level III state (see Figure V.1 and Table III.6).

(3) The turbulent relationship.

The dissatisfaction of some of the SBEs (about 42%) may cause some of them to leave the VMS. A clear evidence of the existence of the rebellious independent entrepreneurs or the level II type, is the "drop-out" cases. Some members of this drop-out group engage in independent ventures after leaving the VMS (see Figure III.1).

From the foregoing transcendence model and cases observed in this study, we can conclude that the three psychological dependence types (i.e. dependence, independence, and interdependence) exist in VMSs. Some members have been able to reach the level III stage (about 21%). In an interdependence stage both the SBEs and the large firms can work together within a VMS system. This means that not only the "dependent" type SBEs can exist in VMS, but also the "independent" type SBEs (as indicated by their sources of income) who have reached the level III stage. Pfeiffer's transcendence model is very useful for explaining the rise and existence of "mature" relations between two parties. These parties need not always be equal in most respects in order to achieve this exchange.

The three factors mentioned above, namely (1) the ability of the SBEs to delegate non-entrepreneurial activities, (2) the unique benefits offered by the large firms, and (3) the development of interdependent relationships between SBEs and the large firms, can support the existence of "independent" type SBEs in VMS. On the other hand, there are forces in the VMS (both in the SBEs and the large firms) which may resist the development of "independent" SBEs in the VMS. As explained in the Pfeiffer theory mentioned earlier, failures will most likely occur when the SBEs and the large firm are

not able to extend their relations to the ideal stage, namely interdependence. This interdependence relation is described by Bowersox and others, as quoted earlier in Chapter III, section F, as one of the essential features of VMS (4).

In summary, this study has confirmed that "independent" SBEs exist in all VMS studied, and their existence is supported by factors within the SBEs, the large firms, and the vertical relationship system itself.

C. VMS AND ENTREPRENEURSHIP DEVELOPMENT

As has been discussed in Chapter I, section E and IV, the decision to enter and the development of an entrepreneurial career is influenced by many factors, for example: negative displacements (e.g. being a minority and / or out of work) and positive pull (e.g. opportunity offered by large firms). In this study VMS is considered as one of the factors, and for some SBEs it is the major determining factor. Three major contributions of VMS to the development of SBE's business career have been identified, namely:

1. The development of new owner-managers.
2. The transfer of modern business techniques and sound business attitudes.
3. The provision of opportunities for groups which may be disadvantaged in terms of entrepreneurship to become businessmen.

The objectives of this section are as follows:

- (1) to identify who can gain most from VMS in terms of entrepreneurship development,
- (2) to describe how VMS can help SBEs' entrepreneurship development.

Before the above issues are discussed, some clarifications as to the characteristics of small business entrepreneurs are presented. As mentioned in Chapter IV, the terms "entrepreneur" and "entrepreneurship" can mean different things for different people.

1. The Characteristics of Small Business Entrepreneurs

The term entrepreneur used in this study means owner-manager. Thus entrepreneurship means the functions or activities carried out by owner-managers. In this study the entrepreneurs studied engage primarily in small and medium scale trading. As discussed earlier in Chapter IV, the SBEs' functions, psychological characteristics, and status/position

may differ markedly with other types of entrepreneur, for example with the Schumpeterian industrial innovative entrepreneur. The focus of this exploratory study, therefore, to describe the large firms contribution to the creation and development of owner-managers. The term owner-manager excludes the self-employed entrepreneur, who does not have any business organization, and the owner-director, who does not directly participate in the day-to-day business operation.

This study reveals that one of the crucial aspects of the SBEs' entrepreneurship in VMS is their perception on the ownership status in the business unit under the VMS. The large firm's involvement in the SBEs' businesses may have caused the lack of ownership feeling among 30% of the SBEs. This case occurs primarily in the tightly controlled VMSs (see Table IV.4). As mentioned in Chapter IV, section C.4, the absence of felt-ownership may have deeper implications concerning the SBEs' attitudes towards work, consumers, and other aspects of the operation of their business units. The absence of felt-ownership will probably not only give them a sense of not having entrepreneurial status but also make them reluctant to perform entrepreneurial functions such as opportunity seeking, risk taking, and organization building.

Another important characteristic of the small business entrepreneurs' function and activity is that the SBEs are actively managing their day to day business operation. Unlike branch managers, the SBEs manage their own businesses instead of other's. In the later stage of their entrepreneurial career some of the SBEs may move into a more sophisticated entrepreneurial activity rather than largely performing managerial functions, for example as owner-directors. For the majority of the SBEs, therefore, their primary concern is to be successful in their day-to-day operation. For example, the large firm's support to ensure the SBEs' marketing operation is given priority. The SBEs' "short-term" view is revealed in this study on the basis of the large firms' evaluation of the SBEs' entrepreneurship (see Chapter IV section B.2). This "short-term" phenomenon is also reported by other writers based on developed countries' cases. A discussion about the foregoing phenomenon is presented in Chapter IV, section B.2.

In summary, as far as the SBEs in the VMS are concerned, their entrepreneurship development is at an early stage. The unambitious entrepreneurs will remain in this early stage throughout their business careers. In a tightly controlled VMS the crucial part of the SBEs' entrepreneurship is to be genuine owners of viable business units and to manage them successfully.

2. The Development of New Entrepreneurs

This study reveals that 51.9% of the SBEs started their businesses without prior experience as businessmen. As mentioned in Chapter IV, Table IV.8, a businessman is someone who has a business and manage it, while an employee works for other organizations. From this non-business or non-entrepreneurial experience group some (between 26% and 32.5% of the total SBEs) have been developed into new owner-manager by their large-firm partners. The VMS may not, however, be the only factor contributing to this process. About 50% of those without entrepreneurial experience feel that without the supplier's assistance they would not have become businessmen, and thus the VMS may have played a significant role in this process. This study further reveals that those who do not have prior entrepreneurial experience can in the end perform as well as those who have it (see Table IV.5, item B.1), as far as their suppliers are concerned. This is a remarkable contribution by the VMS.

A comparison between three SBE's background factors, which may restrict a person's chances of engaging in a business career (i.e. without prior entrepreneurial experience, from families with no business background, and from indigenous group), reveals that the supplier's role in helping the SBEs in starting their businesses and in making them into businessmen is significant in overcoming two factors, namely lack of family business background and ethnicity (see Table IV.5, 9 and 13 items D1 and D2). Thus the assistance offered by the large firms in VMSs to start and help the SBEs to be businessmen is generally much felt by those who come from families with no business background and/or the indigenous group. In this study the father's occupation is used as the indicator of the "business education" of the SBEs' childhood. A further discussion of the supplier's role in developing groups in society who are disadvantaged in terms of entrepreneurship is presented in point 4.

The fact that there are SBEs who do not have prior business backgrounds but can succeed without a supplier's help may mean that they have other more experienced persons, in place of the supplier, whom they can depend on for assistance. This study reveals that the indigenous group tends to feel that their suppliers have helped them to start their businesses, while the non-indigenous are less convinced of this (see Table IV.13). These data support the view that "outside" assistance may be more readily available in the Chinese business community than in the indigenous, owing to the close connections within the extended family in the Chinese social structure. Thus a large firm's support for the development of a new business is very much felt and probably also much needed by the indigenous group and in particular by those who come from families with no business background (see Table IV 9 and 13). Hereafter this group is called the entrepreneurially disadvantaged group.

Which type of VMS help the SBEs most in starting new business? There is a highly significant difference between VMSs with regard to the degree of assistance given to their SBE partners in starting the latter's businesses (see Table III. 20). Those tight-control type of VMSs offer significantly more help at the start of the SBEs' ventures than those of the loose type.

It should be noted, however, that about half of the SBEs without prior entrepreneurial experience do not perceive themselves to be owners of the business units they are currently managing. Formally they are entrepreneurs but operationally they are not.

3. The Transfer of Modern Business Techniques and the Inculcation of Sound Business Practices

The above mentioned benefit can be regarded as one of the most remarkable contributions that VMS can offer. This study confirms that the availability and usefulness of the supplier's assistance in the VMSs studied are comparable with the franchise type of assistance seen in the advanced countries. This relatively comprehensive assistance may not be available in other small business development programmes offered by the government, private voluntary organizations, banks, and other programmes outside the vertical relationship systems.

The variety of small business development programmes currently in operation are too numerous to mention. There is a general opinion in this field that there is a need for a coordinating body in order to achieve greater efficiency and effectiveness among the various fragmented programmes in this field (5). Also, some programmes are quite limited in scope, duration, purpose and type of assistance (such as training or consulting only) so that their effectiveness in overcoming the complex problems faced by small businesses is very much in doubt. In contrast, a list of a possible comprehensive and integrated assistance packages offered by franchisors is presented in Chapter I, section F.

Two distinct features of VMS assistance are worth mentioning.

- (1) It is relevant for the SBE's operation.
- (2) It is carried out in an efficient and effective way.

There are several reasons which support the above views, namely as follows:

- a. The suppliers are involved in and committed to the success of their SBE partners.
- b. The supplier's constant monitoring of SBE's performance, ensures that the former are in a better position to identify the latter's strengths and weaknesses and thus to supply the relevant assistance.

- c. The suppliers are motivated by profit. Thus they will not waste resources by giving SBEs unnecessary assistance.
- d. As has been revealed in this study, the assistance provided may cover the complete process: from starting the business up to the maintenance of a high standard of business operations.
- e. The suppliers' constant monitoring ensures that those who do not fit the system (either because they are not entrepreneurs or because they are too independent to conform to the system) will soon recognize the situation. This study reveals that this "weeding out" process happens mostly before the SBEs have been in the VMS for three years. This constant monitoring of SBE performance may compensate for the difficulty in selecting candidates suitable to become "VMS entrepreneurs". Thus a VMS to a certain extent ensures that the right person gets the right assistance in terms of business career development.

A compilation of SBEs comments with regard the large firms' role and capability for developing the SBEs business is presented in Chapter III, section H. The factors most often mentioned is the administration system used in the VMS. Besides the administration system, there are many other factors mentioned by the SBEs, such as training, guidance, encouragement, and an atmosphere conducive to their becoming better businessmen. For example case 5136 mentions that the supplier's system puts all of his business operations in good order and this makes him accustomed to doing everything in an orderly way. An interesting view is given by case 7144. He appeals to the large firm not to give too much assistance, because it will prevent him from becoming mature. Case 7144 has been 5 years in the VMS studied and has other business outside the VMS as a result of the experience he gained in the VMS (see Chapter III, section H).

As has been mentioned in Chapter I, as part of the modernization process, Indonesian businesses need to develop and to acquire relevant modern business techniques and practices. The modernization process in the trade sector is required to match modernization in other fields and also it may stimulate the latter. On the basis of the SBEs' comments and of direct observation by the interviewers at the SBEs' shops, this study reveals that VMS can offer the possibility of transferring relevant modern business techniques and the inculcation of sound business practices to the small business entrepreneurs. As compared with many independent shops, the VMS members have better shop display, administration, planning, and control of operations. A comparative analysis of the attitude of VMS members as compared with entrepreneurs in independent systems reveals that the SBEs in VMS generally tend to be more active in enlarging their organization and developing the management of their businesses as compared with those in independent systems (see Chapter IV, section B.2).

3. The Provision of Opportunities for the Disadvantaged Group

In this study the contribution of VMS to entrepreneurial career development is analysed along three main variables, namely

- (1) entrepreneurial experience prior to business career within VMS,
- (2) family business background, as indicated by the father's occupation, and
- (3) ethnicity.

In each variables, two contrasting groups are identified, namely

- (1) those with better chance of engaging in an entrepreneurial career, and
- (2) those who are entrepreneurially disadvantaged.

In this section the focus of the description of VMS contribution is on the three disadvantaged groups identified through the above approaches. Each variable is analysed separately. There may, however, be significant overlaps between attributes from different variables, for example those whose fathers are businessmen tend to be non-indigenous. The three entrepreneurially disadvantaged groups analysed are as follows:

a. The non-entrepreneurial experienced SBEs.

The member of this group do not have entrepreneurial experience, namely owning and managing a business unit, prior to owning and managing their businesses within VMS.

b. Those whose fathers are not businessmen.

As mentioned earlier, it is assumed that father's occupation influences person's prior-work education.

c. The indigenous SBEs.

It is assumed that the socio-cultural aspect of person's ethnicity influences his readiness for an entrepreneurial career.

The contribution of VMS to the disadvantaged groups, on the basis of the foregoing approaches, is explained below:

(1) The SBEs without entrepreneurial experience.

The contribution of VMS to the SBEs without entrepreneurial experience takes the form of the formation of new entrepreneurs. As discussed earlier in point 2, the tight-control type VMSs play an important part in this process, while the loose-type of VMSs are significantly less important. About 50% of the SBEs without entrepreneurial experience are helped by the large firms, while the rest by their families or friends

to become owner-managers. It was found that about 50% of the SBEs without personal entrepreneurial experience had fathers who were businessmen.

(2) SBEs whose fathers are non businessmen.

The majority (77%) of those whose fathers are not businessmen feel that their suppliers have helped them significantly at the start up stage, while only 23% of them feel otherwise (see Table IV.11). A contrasting view is given by those whose fathers are businessmen. There is a significant difference between those two groups with regard to the supplier's help at the initial stage of their businesses (significant level = 0.0197).

In addition, those whose fathers are non-businessmen feel significantly different from those whose fathers are businessmen in terms of the supplier's role in making them businessmen as they are today. About 70% of those whose fathers are not businessmen agree with the statement that without their suppliers they would not have been businessmen as they are today (see Table IV.12).

From the foregoing we can conclude that VMS have played an important role in helping individuals who are socially in a difficult position for obtaining outside help to become entrepreneurs, namely those from families with no business background.

(3) The indigenous SBEs.

This study reveals that there is a significant difference between the indigenous and non-indigenous groups with regard to their views about the supplier's help at the start-up stage of their establishment. About 81% of the indigenous group feel that the supplier helped them significantly at the start-up stage, while some 69% of the non-indigenous feel otherwise (see Table IV.13).

Another important finding revealed in this study is that there is a significant difference between indigenous and non-indigenous groups with regard to the types of VMS. The indigenous group tends to be in a tightly controlled VMS and the non-indigenous are members of the loosed type VMS (see Table III.16).

A further investigation on the relationship between the SBEs' favourable or unfavourable entrepreneurial background and their performance within VMS reveals as follows. There are fourteen SBEs (18.2%) who have the following three unfavourable entrepreneurial backgrounds, namely

- (1) they have no prior entrepreneurial experience,
- (2) their fathers are not businessmen, and
- (3) they are indigenous.

At the other extreme, there are seventeen SBEs (22.1%) who have the following three favourable entrepreneurial backgrounds, namely

- (1) they have prior entrepreneurial experience,
- (2) their fathers are businessmen, and
- (3) they are non-indigenous.

The chi-square test reveals that there is no significant difference between those two groups with regard to their performance within VMS (significant level = 0.97). This finding supports the conclusion that within VMS the performance of the entrepreneurially disadvantaged groups is equal to that of other different groups.

We can summarise as follows the conclusions as to the potential contribution of VMS:

a. Three major variables of entrepreneur's background are investigated in this study, namely

- (1) entrepreneurial experience,
- (2) family business background,
- (3) ethnicity.

This study reveals that the family business background factor has a greater influence than business experience and ethnicity on channel members' tendency to depend on the VMS in their business career development. Those who come from families with no business background, as indicated by their fathers' occupation, tend to depend on the large firm's assistance in starting and developing their businesses (see Tables IV, 5, 9, and 13, item D.2).

b. A large firm's support is very much felt and probably much needed by the indigenous group who come from families with no business background (see Tables IV, 5, 9 and 13, items D1 and D2).

c. A tightly-controlled VMS offers significantly more help at the start of the venture than a looser one (see Table III.20).

d. In a loose-control type of VMS the role of the large firm in developing a person's entrepreneurship is less important than in the tightly controlled VMS (see Table III.21). In this case other factors play a more important role, namely the person's personal characteristics, family business background, and ethnicity.

e. There are various factors which may influence a person's entrepreneurial development. On the basis of the variables investigated in this study, it is found that two major forces significantly influence the development of entrepreneurs within VMS, namely the personal factor (i.e. entrepreneurial motive and individual characteristics) of the individual member and the VMS. The existence of independent entrepreneurs in all types

of VMS means that the personal factor may play a greater role than the VMS in shaping a person's entrepreneurial development. Thus, in a vertical linkage system, personal factors are the primary determining variable for one's entrepreneurship development, while large firm's influence is secondary.

- f. This study reveals that the performance of the SBEs from the entrepreneurially disadvantaged groups is equal to that of other different groups, as far as the large firms are concerned (see Tables IV. 5, 9 and 13, item B.1). Also, as compared with other small business development programmes offered by various state and private voluntary agencies, which tend to be fragmented and limited in scope, VMS can offer a more comprehensive, integrated, and long-term assistance to the small businesses. This study reveals that VMS channel members tend to be more concerned with the organization and management of their businesses than those from an independent system. Thus vertical linkage system with a large firm's relatively high involvement can serve as an effective pathway for entrepreneurially motivated individuals (see point e) who come from groups with poor childhood business education and business support (see points a and b) to become successful modern entrepreneurs.

D. RECOMMENDATIONS

The following key issues and recommendations are put forward on the basis of the earlier discussions and findings of this study. Some experiences and views described in other related studies are also incorporated. It is hoped that the result of this study can provide policy makers in the large firms and government agencies with a better and more balanced view on the potential contribution of vertical marketing systems.

1. Relationships between Large Firms and Channel Members

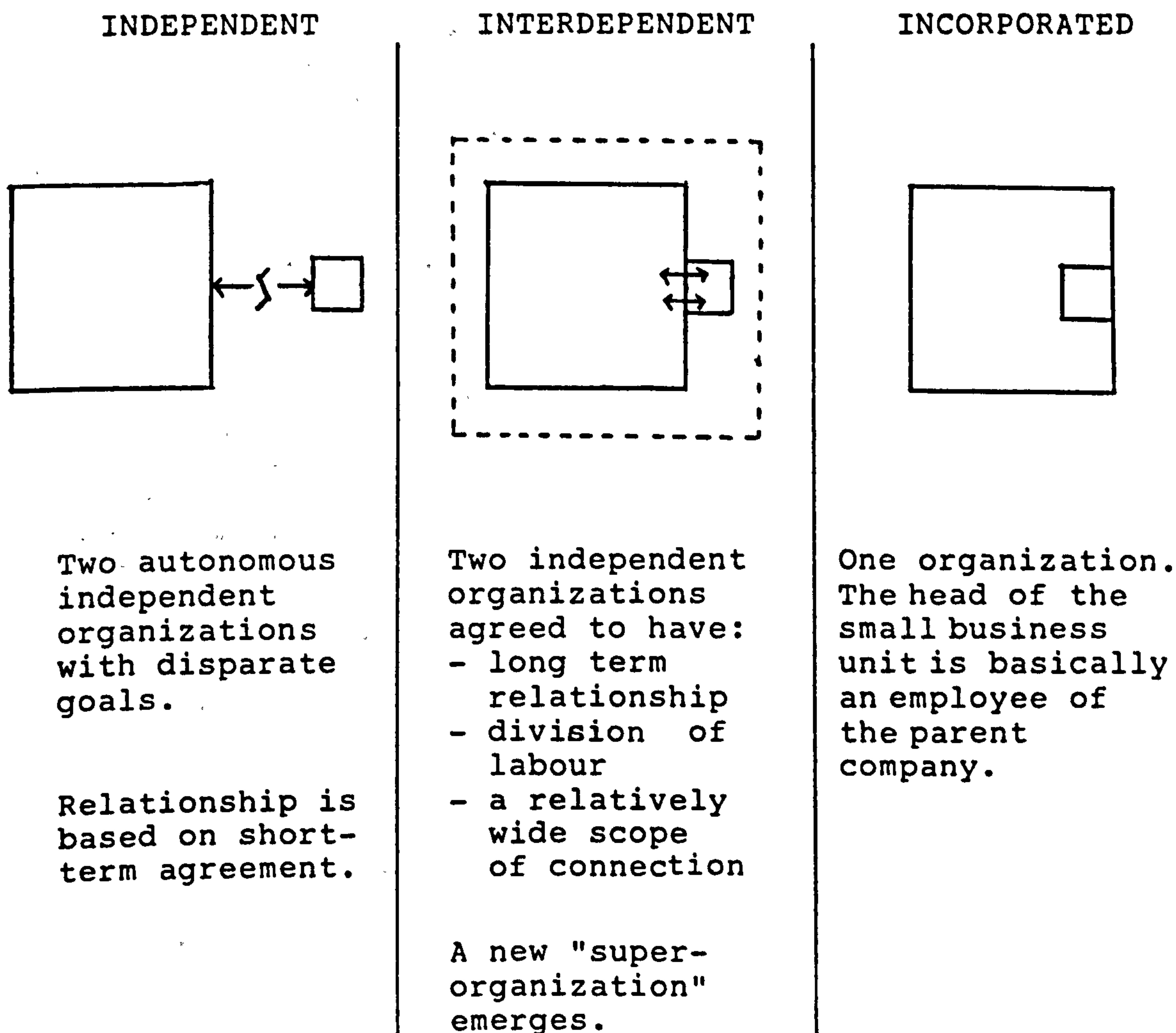
As has been mentioned in Chapter I, section G, the Indonesian Government perceives that a vertical linkage system is not only a business relation but also a "parental" relation, namely the large firms are under an obligation to train and develop the weak. In a VMS system some of those activities which may be classified as "parental" activities,

such as training and development, are basically carried out by the large firms as part of their long-term business objectives. This is probably one of the unique characteristics of VMS that the large firm is concerned with the development of its small business partners and the maintenance of the latter's high standard of operation. The system-wide orientation developed among VMS members makes them feel part of a unit competing with other distribution networks. A VMS may have a highly integrated relationship and as such some tend to perceive it as a "superorganisation" and far from being a collection of autonomous members with disparate goals (see the contrast of various channel systems in Chapter II, section B).

A brief description of the three contrasting characteristics of an independent business relation, a highly integrated relationship between large and small firms in a VMS, and a corporate system relationship is presented and illustrated in Figure V.2.

FIGURE V.2

INDEPENDENT, INTERDEPENDENT, AND INCORPORATED RELATIONS



Do the ideal characteristics of VMS prevail? To a certain extent, the ideal characteristics mentioned above and in Chapter II exist. The existence of SBEs with a long-term relationship within VMS (i.e. more than 20 years) tells us that the relationship developed so far has survived and is able to yield benefits for those involved. Also, from Table III.9 we can conclude that at least 32.9% of the SBEs who depend heavily on their large firm partners feel satisfied. Unfortunately, there are still some practices which militate against the development of an "ideal" VMS. The following are problems which have been discovered which need the attention of policy makers, and in particular executives of large firm.

a. Over emphasis on short-term objectives.

There are indications that some of the large firm's executives rely more on the use of power (or influence) which is effective to achieve short term objectives but can be detrimental for long-term cooperation within VMS. These executives rely on the use of coercive power rather than non-coercive, the use of economic rewards and punishments rather than non-economic power. Some of the SBEs' comments presented in Chapter III, section C illustrate this point. The existence of a fear of not meeting the sales target, the frequent use of instructions and pressures, are some of the symptoms which lead to "strained" relationships. About 39% of the SBEs feel that the large firm is more concerned with its own interests than with system-wide objectives. About 40% of SBEs feel that their suppliers treat them as children who are expected to follow (see Table III.6).

An analysis of the short-term and long-term consequences of the use of various types of power is presented in Table V.1. on the basis of Kasulis and Spekman's work. From this table we can conclude that the use of coercive, reward and legal legitimate powers will lead to short-term compliance. This contrasts strongly with the other types of power, namely referent, expert, traditional legitimate and informational. These latter powers tend to lay down the bases for long lasting cooperation. It is suggested, therefore, that the excessive use of power which leads to short-term results and to forced compliance among channel members should be reviewed. The seemingly successful short-term results may in the end cost too much owing to disloyalty, demotivation and eventual departure of the SBEs. The ideal mix of power used by the large firm depends on many factors, such as the availability of capable "field-supervisors", who can act as experts or business consultants for small businesses and other marketing elements outside distribution, such as product, price and promotion. It may take a considerable effort on the part of the large firm to change its strategy from a "compliance" orientation into accomodating the development of "identification" and "internalization" among its channel members. From Table III.25 we gain the

TABLE V.1. THE CONSEQUENCES OF AN INFLUENCE ATTEMPT

TYPE OF POWER	EXAMPLES	CONSEQUENCES	OPERATIONALIZATION
<p>1. <u>COERCIVE</u> A's ability to punish B.</p>	<p>Withholding important support or threatening termination of the relationship.</p>	<p><u>Compliance:</u> B conforms to A's influence solely because B expects to achieve a favourable reaction from A.</p>	<p>Short-lived, erratic response which is only enacted when B's behaviour is monitored by A.</p>
<p>2. <u>REWARD</u> A's ability to mediate rewards to B.</p>	<p>Providing financial incentives or support.</p>		
<p>3. <u>LEGAL LEGITIMATE</u> The perceived right of A to dictate B on the basis of contractual agreement.</p>	<p>Contractual requirements mandating behaviour such as the minimum sales per period.</p>		
<p>4. <u>REFERENT</u> B's desire to share the attractiveness of A.</p>	<p>Seeking to share the image or reputation of another.</p>	<p><u>Identification:</u> B conforms to A's influence because B wishes to establish or maintain a desired association with A.</p>	<p>A prolonged, fairly predictable response limited to B's source of identification with A.</p>
<p>5. <u>EXPERT</u> Superior knowledge or insight attributed to A by B.</p>	<p>Acquiescence in suggestions because of unique expertise and trust.</p>		
<p>6. <u>TRADITIONAL LEGITIMATE</u> The perceived right of A to dictate B on the basis of institutionalized behaviour that becomes accepted role.</p>	<p>Philosophical acceptance of channel roles.</p>	<p><u>Internalisation:</u> B conforms to A's influence because A's demands are consistent with B's values.</p>	<p>Long lasting co-operation based upon similar perspectives.</p>
<p>7. <u>INFORMATIONAL</u> A's ability to explicate contingencies not adequately considered by B.</p>	<p>The ability to persuade others as to the merits of one's position such as the offering of an inventory management or plan.</p>		

Source: Adapted from J.J. Kasulis and R.E. Spekman. A Framework for the Use of Power. European Journal of Marketing, 14, 4, 1980, pp 180-191.

surprising finding that training schemes are considered as one of the scarcest supplier's activities, although it is considered very useful by the SBEs (see also Table III.29). Training is probably one of the methods which can be effectively used to develop identification and internalization.

b. Dependent vs Independent Entrepreneurs.

The large firm's concern with the small-business distributors' entrepreneurship may arise when it has to decide on the role expected of these distributors as part of the former's decision as to the type of distribution system adopted. As has been mentioned in Chapter II section B, entrepreneurial distributors are needed if the large firm feels that it faces an uncertain environment for the marketing of its product. On the other hand, in a more certain environment in which various routine modes of distribution operation can be laid down and most other distribution activities can be conducted according to pre-established rules and regulations, fewer entrepreneurial distributors are needed. In this study this group may be represented by the "non-entrepreneurs" or the "dependent-entrepreneurs".

This study reveals that VMS may accommodate a wide variety of markedly different types of entrepreneur and non-entrepreneurs. At one extreme we may find an extreme dependent non-entrepreneurial type of SBEs who is happy and for the foreseeable future will stay in that system. At another pole, we may find independent entrepreneurs who feel that the VMS has made them entrepreneurs and they want to stay within the VMS but at the same time to make use of their entrepreneurial drive so as to engage in other independent ventures (see Figure III.1).

The problem of relationships with SBEs arises when the large firm introduces policies which are incongruent with some of their characteristics. For example, a large firm in the sample introduced a new scheme to encourage its SBE partners' entrepreneurship, and thus reduced its financial assistance and other related activities. One of the substantial changes introduced in the new scheme was that the SBEs had to buy the large firm's products instead of ordering on consignment. The new scheme offered bigger discounts and greater flexibility in marketing the products. The new scheme was welcomed by about 40% of the SBEs, who knew how to benefit from it, while about 60% were reluctant. One of those who was against it said that unless he was forced to change to the new scheme, he would rather remain in the old system. He added that with the new scheme the SBEs have to shoulder more risks and burdens (case 7126).

In the above case resistance to the new scheme comes from the "dependent non-entrepreneurial" type SBEs. Some of them have a long and relatively successful history as members of

the VMS. A sudden change in the large firm's expectations as to the entrepreneurial role of the SBEs may create a relationship problem with a significant number of its "loyal" channel members.

Another contrasting case is reported in a VMS which encourages the entrepreneurship of its SBE members through training and other schemes. The large firm, however, discourages its channel members from engaging in other business activities outside the VMS. Some of the entrepreneurial SBE members have to conceal their outside activities in order not to be expelled from the system.

Theoretically there are three alternative strategies for the large firm with regard to its decisions on the entrepreneurial type of its SBE channel members, namely

- (1) dependent type,
- (2) independent type, and
- (3) mixed type.

From this study it seems that all of the VMS have a variety of types of channel members (see Table III.19). In this case, if the large firms intend to remain working with those varied types of SBE, the contrasting characteristics of different entrepreneurial types of SBEs have to be taken into account, and a separate approach has to be introduced so as to maintain their full contribution.

Some of the main characteristics of the two contrasting types of entrepreneur in VMS is presented in Table V.2. From this table we can conclude that the dependent type entrepreneurs have different objectives from the independent type. An assurance of adequate sales, and therefore income, might have satisfied the dependent type of entrepreneurs. On the other hand, a constant growing opportunity and challenge, which is more than or as attractive as other outside businesses, should probably be provided in order to motivate the independent type of entrepreneurs to devote their entrepreneurial talent to a VMS.

c. The informal and social aspects of vertical relationship.

This study reveals that the relationship in VMSs studied is governed in large part by impersonal transactions and legal contracts. It seems that in many respects it resembles the Western type of vertical relationship rather than the Japanese (6). A detailed discussion on this formal and informal aspect of relationship is presented in Chapter III section D.

The relationship can also be described as "concern for production" rather than a balance of both production and people. On the basis of the managerial grid theory developed by Blake and Mouton, some of the large firm's executives can be categorised as being concerned with operational results

TABLE V.2.

SOME MAIN CHARACTERISTICS OF THE DEPENDENT AND INDEPENDENT ENTREPRENEURS

DEPENDENT ENTREPRENEURS

1. SOURCES OF INCOME
They depend solely or in great part on one main supplier only.

2. SATISFACTION WITH VMS

They are satisfied in being members of VMS and wish to grow as planned and guided by the large firm.

3. PRIMARY OBJECTIVE

Their primary concern is to get adequate and secure income from their present career as dependent SBEs. This career is viewed as an alternative to employment. They tend to consider that their status as SBEs is better than employees.

4. MAJOR PROBLEMS

Their main worries are to have security in their current career and the future. Their current income is just enough for living but not for future saving.

INDEPENDENT ENTREPRENEURS

1. SOURCES OF INCOME
They tend to have several sources of income, and in particular other independent business.

2. SATISFACTION WITH VMS

They find some benefits from being members of VMS, but are not satisfied of the limited opportunity to use their entrepreneurship within VMS.

3. PRIMARY OBJECTIVE

Their primary concern is to expand into a more independent venture. Their membership in VMS helps them in their own ventures.

4. MAJOR PROBLEMS

Their main worry is to balance their activities within and outside VMS. They are concerned over maintaining their VMS membership. In this case they need to have dependable lieutenants for their various business activities.

by arranging conditions of the business transaction with the SBEs in such a way as to minimising interference by human elements (7). This style is probably most effective if the type of SBEs' operation does not need their individual creativity and initiative. As described earlier in Chapter I (see Table I.10) the SBEs' active and aggressive attitudes are needed in order to obtain satisfactory results in the fiercely competitive environment they are facing. Blake and Mouton provide the following description of a management style with a high concern with both people and production:

"Work accomplishment is from committed people; interdependence through a "common stake" in organization purpose leads to relationships of trust and respect (8)."

In an asymmetrical relationship the social side of relations can play a great role in redressing the imbalance. As mentioned in Chapter III section D, according to Bucklin the socialization behaviour in channel-distribution, which is in the form of business gift-giving, lies in efforts on the part of businessmen to redress social imbalance. Reciprocity is a fundamental basis for conducting social affairs. In channels, reciprocity consists of service exchanges above and beyond contractual agreements. In this study the social aspect investigated is not confined to gift-giving, but involves a broader aspect of interpersonal relations, namely friendliness, warmth, and trustworthiness.

With regard to the social aspect of the relationship, there was a somewhat unfavourable picture. About 64% of the SBEs feel that the social aspect of the relations should be improved, and 22.1% are unwilling to reveal their feelings about this issue explicitly or are undecided. Only a minority of 14.3% feel the current social relationship with the supplier to be satisfactory. As quoted in Chapter III, section D, a respondent describes the current asymmetrical relationship as unfair and feels that the agreement should be altered.

From the foregoing discussion and the responses of the SBEs reported in Chapter III, we can conclude that besides the formal side of the linkage system, such as the written agreement, reports, assistance, and so on, there are informal or interpersonal factors which may play important roles in creating healthy vertical relationships for a great number of distributors.

As discussed earlier in Chapter III, section F, the fact that organizations are dependent for survival and success on their environments does not of itself make their existence problematic. Problems arise not merely because organizations are dependent on their environment, but because this environment is not dependable. In a VMS-type of relation the

small businesses depend to a large extent on the large firms. It is primarily the attitude and the leadership of the large firm which will ensure the creation of healthy vertical relationships and the small businesses' success.

This study reveals that some of the participants in the VMS have developed "patron-client" relationships (see Chapter III, section B up to D). In the patron-client relations the interpersonal aspect is very strong. Ideally, a strong element of unconditionality and of long-range credit is built into these relations (The basic characteristics of patron-client relations is presented in Table III.4). It is suggested, therefore, that the "identification" and "internalisation" process on the part of the system members, which have been described earlier as the foundation for long term cooperation between VMS members, can be developed or strengthened through the non formal channel, namely informal or interpersonal relations.

As mentioned in Chapter III, section B, one great obstacle to the large firm's developing interpersonal relationships with its SBEs partners is that there is not always one supplier's executive who can fully represent the supplier's image and keep continuously in touch with the SBEs. There is a tendency to delegate the activities so as to relate with the SBEs at lower levels. Some of the SBEs have reluctantly admitted that they have difficulties in dealing with their main supplier because the supplier's representatives are "employees" while they are owners. The involvement of large firms' "senior" executives in the development and maintenance of the interpersonal aspect of VMS relations seems to be required. These senior executives are probably the right persons to play the role of "patrons". As quoted in Chapter III, one of the most successful and entrepreneurial SBEs describes his expectation of the large firm's role both as a father who is expected to push and as a close friend who encourages participation. In brief, the large firm is expected to explore the development of the informal or interpersonal side of VMS relations. In carrying out this programme the concern on the part of the relatively senior level executives is required, especially in order to represent the powerful image on the large firm. In other words, in addition to the junior executives' activities the senior executives should maintain their relationships with the SBEs, although on relatively limited occasions.

2. The Development of SBEs Entrepreneurial Function

The large firms are concerned that their SBE partners should play an active entrepreneurial function, and should in particular seek out opportunities. Also, the large firm needs the SBEs' conformity and cooperation in the implementation of the total marketing plan, which includes non-selling activities.

There are two problems identified, namely:

- (1) Some of the SBEs feel that they are substantially constrained by the large firm's involvement, hence it is suspected that the SBEs can function as entrepreneurs.
- (2) Some of the SBEs are so independent that the large firm has difficulty in asking for their cooperation, particularly in activities apart from selling, for example planning, administration, and the implementation of new management systems.

The two problems mentioned above are discussed below and some recommendations are put forward.

a. The development of SBEs' entrepreneurship.

This study reveals that 27.3% of SBEs do not feel that they are genuine owners of the businesses they run, and 11.7% are in doubt whether they are owners or not. As has been discussed earlier, the absence of felt-ownership on the part of the leader of a business unit may have deeper implications concerning his possible attitudes towards the work, the consumers, and other aspects of the job. Parallel with Wattel's view on the characteristics of franchisees (9), the business behaviour of the SBEs who lack felt-ownership may not differ significantly from that of middle-managers. They may be far from having the characteristics of entrepreneurs. The absence of felt-ownership will probably not only give them a sense of not having entrepreneurial status but may also make them reluctant to perform entrepreneurial functions such as opportunity seeking, risk taking, and organization building. It is obvious that the large firms do not want this to occur. The primary purpose of developing a VMS is to allow the entrepreneurship of the SBEs to contribute to the overall VMS performance, which probably could not be achieved had there been "managers" instead of "entrepreneurs" as leaders of the business units involved. It is generally believed that business owners tend to work harder and be more conscientious than managers of company operated units (10).

This study reveals that the lack of ownership feeling is closely correlated with the lack of participation on the part of the SBEs at the initial start-up stage of the venture (see Table IV.3). In addition to the other steps which the large firm might take to induce SBEs' entrepreneurship, this study suggests an increase in participation on the part of the new SBE recruits at the initial stage of their venture. The exact form of the possible participation is influenced by many factors, such as the resources and background of the new recruits. For example, in one of the tightly controlled VMSs the large firm has difficulty in requiring its SBE candidates to

raise a significant amount of money to start their businesses. One of the alternatives is to contact a bank to help raise the necessary amount of money for the above purpose. Unless a SBE feels that he has "bought" the ownership status of a particular establishment, he will feel not like an owner but like the manager of a large firm's business unit.

The lack of felt-ownership also relates to the type of VMS and to the perception of SBEs as to the supplier's influence. The lack of felt-ownership occurs mostly in VMSs with tight-control systems. Also, those who feel the lack of felt-ownership tend to think that the supplier has a big influence on their business operation (see Table IV.4). It is suggested that the large firms should review their expectation of the entrepreneurial role of their SBE partners. If there is a need for a greater SBEs' entrepreneurial role, the current negative influences may have to be reduced.

In Table III.10 a list of activities and decision areas of the SBEs in various VMSs and the degree of the supplier's influence on those areas is presented. On the basis of the information provided in this table, the large firms can analyse which part of their influence can be reduced without jeopardizing the overall VMS objectives. For example, in one of the VMS the large firm may consider reducing its involvement in the management of the SBE workforce.

b. The SBEs' conformity and cooperation.

The initial cause of the large firms' difficulty in securing conformity and cooperation from their SBE partners may have been the way in which the large firms selected the type of SBE recruits for their VMSs. The large firms may not have been realistic in their selection of SBEs. They may have sought very independent minded SBEs, when really what they need are "less independent" persons.

From Table V.1 presented earlier two types of non-independent types can exist, namely the dependent type and the interdependent type. A more detailed discussion about the relationship and characteristics of dependent, independent, and interdependent type of relations is presented earlier in section B.2 (c).

From discussion with the large firm's executives, and in particular those from the loose-type of VMSs, it can be suspected that the large firms have laid great stress on the SBE candidates' business experience and financial ability. It is suggested that large firms should instead consider candidates with managerial potential, with little business experience, and few financial resources (11). On the basis of franchising practices in developed countries,

many franchisors prefer franchisees who have no background in the particular type of business so that they can more easily train them in their own policies and methods (12).

Another source of tension between the independent growth-oriented SBEs and their large firm partners (as mentioned earlier in section B) is their inability to cope with the growth stage of relations. Those SBEs with significant growth potential are not always satisfied with the opportunities for growth offered within the VMS. About 18% of the SBEs who do not have prior entrepreneurial experience, and thus did not have other businesses prior joining the VMS, say that they have other sources of income outside the VMS. It means that they have chosen to expand their activities outside VMS.

Experience in the developed countries suggests that successful and capable franchisees should be given the opportunity to expand their operation, such as by owning additional outlets. Those who own several outlets can possibly expand further into becoming master franchisees (13). In some of the VMSs studied there are cases of entrepreneurial retailers who are promoted into wholesalers. Unfortunately in some other VMSs no such growth schemes are available. This relationship tension is worsened by the attitude of the large firms which discourages entrepreneurial SBEs from engaging in other activities outside the VMS. Unless the large firms are willing to loose some of their entrepreneurial SBE partners, a growth scheme, which is compatible with the overall distribution and marketing strategy, should be introduced. Some of the examples mentioned above may not be the right answers for all VMSs and SBEs. Mendelsohn suggests that each franchisee must be treated as an individual. His problems are treated as those of an individual, and the approach of the large firm cannot be to dictate to the franchisee what he should do and what company policy is, but rather to try and train him and to instil in him the interest which an individual should have in running and managing his own business, albeit within the established framework (14). Mendelsohn adds further that it is the recognition of and response to the changing and evolving nature of the relationship which is an essential element in the skill of the large firm (15). As has been mentioned in Chapter III section F, one of the large firm's field supervisors rightly described his job as bridging the gap between the supplier and the SBE.

In addition to the possible improvements that the large firm may introduce to deal with the various entrepreneurial types of SBEs, it is probably the skill of the field supervisors in coping with these relationship problems, most of which are probably psychological, that holds the key. Unfortunately, as mentioned earlier, not all of the large firm's representatives are able to function in the way the SBEs expect. The development of the field supervisors may contribute to solving some of the problems

mentioned above in some VMSs. One VMS may be right in using "business development officer" as the title for its field supervisors who are in charge of dealing with its SBE partners.

3. The Development of VMS

The potential contribution of VMS to the development of new entrepreneurs, the transfer of modern business techniques to the small businesses, the inculcation of sound business practices, and the provision of opportunities for groups which may be disadvantaged in terms of entrepreneurship to become businessmen, have all been described in this study. To a great extent the above benefits can be regarded as unintentional consequences of the large firms business activities. From the small business development point of view those large firms engaged in such activities have the potential to make a significant socio-economic contribution. It is obvious, therefore, that it is a good thing to encourage the adoption of VMS. It should be noted, however, that since the achievement of the above benefits depends on the large firm's achievement of its primary objectives, other factors beyond the relationship between the large and small businesses should also be observed in order to assess the potential contribution of VMS to small business development. In this section various issues which influence the development of VMS are discussed.

a. The general economic factor.

The development of vertically integrated channels of distribution takes place when the economy reaches the level of large-scale operation. In Chapter II two general factors which may have significantly influenced the growth of franchising are identified, namely the "pull" factor which originates in the upward movement of society, such as the increase in income and sophistication, and the "push" factor. The increasing concentration of business enterprises, for example, pushes the small independent operators to come together or become members of vertically integrated systems so as to improve their competitive position. No single factor, however, has been identified which accounts for the startling expansion of tight-control type VMS or franchising. Therefore it is difficult to forecast the development of franchising or VMSs in Indonesia.

As mentioned in chapter II, there is a relationship between the progress of the level of economic development and the types of retail market structures. Bucklin defines four different forms of retail market structures: periodic, permanent, fragmented, and vertically integrated (16). It has been shown that the four types of retail market structure mentioned by Bucklin are all present in Indonesia.

The periodic market structure and most probably all the early types of market structure are the dominant ones in the rural areas and for products such as perishable produce which are little affected by industrialization (see Chapter II, section G). The modern types of market structure, however, are becoming important features of the urban and industrialized sector of the economy.

The development of new marketing systems suitable to local needs is partly influenced by the general socio-economic conditions. As has been mentioned in Chapter I, Indonesia is basically still in the agricultural stage. The agricultural sector still contributes 26 per cent of the GDP and employs 58 per cent of the labour force (the 1982 figures), but is undergoing major structural change. It will take many years to move her current low-middle-income position, with GNP per capita in 1982 US \$580, into a high income position, with a GNP per capita of probably ten times the 1982 figure.

The current stage of modernizing Indonesia's distribution system suffers from various problems typical of economic development, such as development gaps, lack of equity, non-diversified exports, persistent dualism, monopolistic power and dependent structures. There are, however, indications that economic growth is being speeded-up. The growth of Indonesia's industry has been speeded-up by domestic and foreign investment (see Chapter I, section B). In this respect the government plays an important role.

Developing vertical marketing systems requires a capability to "manage" other organizations. It is the skill and know-how to manage not just an organization but a superorganization. These interorganization management skills and know-how are very likely minimal among the majority of traditional Chinese businessmen and indigenous traders (17). It is therefore entrepreneurs or companies with foreign marketing expertise that will be the spearhead in the development of VMSs in Indonesia. The government regulations to separate manufacturing and trading activities and to confine the trading sectors in the hand of Indonesians may enhance the development of interorganizations or vertical linkage systems in the trade sector.

On the basis of the developed countries' experience, the growth of VMS is partly stimulated by the awareness of both the large and small businesses as regard the benefits of this vertical linkage system. It has been reported that a large number of groups in the USA are concerned with the growth of franchising (18), including government agencies and banks. The level of awareness of franchising and VMS among various groups in the Indonesian economy is still low. As mentioned earlier, many executives, including the marketing executives, of large firms interviewed were not aware of the above mentioned systems. It is suggested,

therefore, that although the widespread and significant development of VMS in Indonesia may still take a relatively long-time, there is need for continuous promotion of the concept by those who are concerned with the development of small business in general. The short-term objective of the promotion programme should be to increase the level of awareness of the various groups involved in the economy, i.e. both in the private and government sectors.

b. The type of VMS and the concern of large firms.

As has been described earlier, the tight-control type of VMSs offers greater possibilities for the development of small businesses of the entrepreneurially disadvantaged groups than the loose-type. The tightly controlled VMSs do not, however, fully resemble the business format franchise in every respect; for example, only a small capital investment is required from the small businesses and not all of the SBEs feel that they are genuine owners of their businesses.

The various types of franchising and their growth have been discussed in Chapter II, section C. On the basis of the discussion and findings presented in this study the most likely type of VMS to yield the benefits mentioned earlier is the business format franchise. Experience in the developed countries suggests that it is in the second generation or "business format" franchise that most of the growth is recorded and on which most attention from companies and potential franchisees is being focused (19). It is, therefore, suggested that large firms and those companies which have the capability to introduce new marketing techniques should develop further their channels of distribution in ways which can contribute most to the development of small businesses, the consumers, society and obviously for themselves as well. As mentioned earlier, large firms have the potential to contribute towards reducing the widening gap between the modern and the traditional sectors through implementing a vertical relationship system and thereafter paying special attention to the development of the disadvantaged groups within the system. It is assumed that large firms, as leaders of a vertical linkage system are concerned with the country's socio-economic problems, hence their special attention to the development of entrepreneurs in their VMSs and in particular the disadvantaged groups, may mean that they are fulfilling some of their social obligations to the country.

The development of business format franchises or tightly-controlled VMS is probably not the most attractive option for the large firms, although they can provide more long-term benefits as compared with the looser type of VMS. One of the reasons is that a tightly-controlled VMS needs greater investment and more staff to enable them to extend

their relations with their SBE partners. Since the government is concerned with the development of small businesses and other benefits derived from vertical linkage systems, as explained by government officials mentioned in Chapter I, it is suggested that it should stimulate the development of such systems by the provision of various incentives. In order to develop the disadvantaged groups in the VMSs one of the alternatives is a scheme where the current government's assistance to small businesses can be given to the SBEs in collaboration with the large firms. For example, the small businesses in recognized VMSs can have access to the current government credit schemes. In developed countries the private Banks have entered the field of franchising because they have recognized that franchising is a safer way of establishing a new business (20). On the basis of the previous discussion, we can assume that the resources channelled through VMS can be used more effectively and efficiently owing to large firm's involvement.

c. The active role of the government agencies.

Some of the possible ways in which the government can encourage the development of VMS have been mentioned earlier in point b. As has been mentioned in Chapter I, the Indonesian government encourages the development of vertical linkage systems in industry and plantations. The findings in this study and experience in the developed countries suggest that a vertical linkage system in trade may offer various significant benefits, as mentioned earlier. As compared with other modern trading practices, which are usually appropriate only for the modern sectors of the economy, a VMS has the capacity to link the SBEs in small towns with the modern sector (see Chapter II, section G).

Another important feature of this system is that the development of SBEs is carried out effectively and efficiently by the private or business sectors instead of through government subsidies. As mentioned earlier, in Chapter I, section C, there have been unsuccessful attempts to promote an indigenous Indonesian entrepreneurial class through protective measures. It is therefore suggested that government agencies involved in the development of trade, and in particular of small-scale traders, should actively encourage the development of this vertical linkage system as has been initiated in other sectors, namely industry and plantations.

The agencies involved can, for example, provide advice and information, they can develop this system in state trading enterprises, and on the basis of this experience can provide examples of how the vertical linkage systems work in practice.

It should be noted that the current term "foster father" for the large firm used in the industry and plantation sectors may mislead potential participants. A VMS is basically a business relationship, although some of its members may develop other asymmetrical relationships, of the patron-client type. This study suggests that the ultimate relationship between large and small firms is like that between brothers instead of between father and his son. The ideal relations is an interdependent relation instead of a continuously dependent relationship.

d. The protection of sound vertical relationship practices.

Vertical marketing systems are still in their infancy in Indonesia (see Chapter II). There is no association of the small businesses and the contacts between large firms using similar systems are informal. The development of vertical marketing systems (and in particular franchising) in developed countries has been hampered by problems. As mentioned in Chapter II, section F, the franchise system of distribution in the USA has been deluged with legislation and litigation.

At this stage it is probably too early to forecast the various forms of legislation needed in this field. There is, however, a need to preserve sound vertical relationship practices. Both the large and small firms are concerned that their interests should be protected, though this does not mean that extensive laws and regulations are necessary. This study reveals that about 75% of the SBEs feel that a written agreement between large and small businesses in the VMS is important, and some of them (9.1% of the SBEs) add further that there should be a third party playing a part in this formal agreement (In developed countries the franchise association can play an important role in this aspect). A smaller proportion (24.7% of the SBEs) would rather not have a written agreement. It may be worth-while exploring the possibility of following the pattern of the U.K. in protecting the franchise industry, namely by relying to a certain extent on the existence of a self-regulatory body among the participants.

Summary of Recommendations

In summary, this study suggests that vertical linkage systems in trade, which are relatively new business techniques for developing countries, should be promoted. The modernization process in trade is required to match modernization in other fields, and also it may stimulate the latter. This study reveals that vertical marketing systems, and in particular the tightly-controlled VMSs, have the potential to contribute to the development of new entrepreneurs, the transfer of modern business techniques,

the inculcation of sound business practices, and the provision of opportunities for groups which may be disadvantaged in terms of entrepreneurship to become businessmen. In addition to that, VMS can link small towns with the modern sector of the economy.

In relation to the development of VMSs the following issues and recommendations are put forward.

- a. To a great extent the development of SBEs' entrepreneurship within VMS can be regarded as an unintentional consequence of the large firms' business activities. From the small business development point of view those large firms engaged in such activities have the potential to make a significant socio-economic contribution. The development of VMS which can yield the benefits mentioned above may need substantial investment and large staffs to enable the large firms to extend their relationships with their SBE partners. The development of business format franchises or tightly-controlled VMS is probably not always the primary option for the large firms. Since the government is concerned with the development of small businesses and other benefits derived from vertical linkage systems, it is suggested, therefore, that the government should stimulate the development of such systems. The government stimulation, however, should mean that without it a highly integrated VMS is basically a viable business activity. The developed countries' experience proves that franchising is an attractive and expanding business activity runs primarily by the private sectors. The role of the government support is primarily to give an impetus to the above mentioned ideas. The followings are some steps which the government can take: the provision of various incentives, the development of a scheme where the current government's assistance to small businesses can be given to the SBE VMS members in collaboration with large firms, providing advice and information, developing this system in state trading enterprises, and on the basis of this experience provide examples of how the vertical linkage systems work in practice.
- b. The developed countries' experience in this field suggests that there is a need to preserve sound vertical relationship practices. Both the large and small firms are concerned that their interests should be protected, though this does not mean that extensive laws and regulations are necessary. At this stage it is probably too early to forecast the various forms of legislation needed in this field. It may be worthwhile to encourage the existence of a self-regulatory body among the participants.

- c. In a VMS-type of relationship the small businesses depend to a large extent on the large firms. It is primarily the attitude and the leadership of the large firm which will ensure the creation of sound vertical relationships and the success of the small businesses. It is suggested that the excessive use of power which leads to short-term results and to forced compliance among channel members should be reduced. The seemingly successful short-term results may in the end cost too much owing to disloyalty, demotivation, and eventual departure of the channel members. In place of excessive coercive powers, it is suggested that the "identification" and "internalization" process on the part of the system members, which are the foundations for long-term co-operation between VMS members, should be developed or strengthened. The following are some of the steps which can be considered in order to improve the vertical relationship: the involvement of large firm's relatively senior level executives in the development and maintenance of the interpersonal aspect of VMS relationships, training schemes, and the availability of capable field-supervisors who can act as experts or business consultants for small businesses.

This study suggests that the ultimate relationship between large and small firms is like that between brothers instead of between father and his son. The ideal relation is an interdependent relation instead of a continuously dependent relationship.

- d. This study reveals that all the VMS studied have various types of entrepreneur as their channel members, such as the dependent and independent type of entrepreneurs. If the large firms intend to continue working with these varied types of SBE, the contrasting types of SBEs have to be taken into account, and a separate approach has to be introduced so as to maintain their full contribution.
- e. The relationship between a SBE and his large firm partners is not static. Some of the SBEs have been able to develop their businesses and therefore their business skills, customer contacts, and so on. It is the recognition of and the response to the changing and evolving nature of the relationship which is an essential element in the skill of the large firm. In addition to the senior level executives' concern with this relationship aspect, as has been suggested in point c, it is probably the skill of the field supervisors in coping with these changing and evolving relationship problems, most of which are probably psychological, that holds the key.

From the foregoing we can conclude that both the government and private sectors should play an active role in the development of VMSs. As has been mentioned earlier, the level of awareness of VMS and franchising concepts among various groups in the Indonesian economy is still low. It is suggested, therefore, that although the widespread and significant development of VMS in Indonesia may still take a relatively long time, there is a need for continuous promotion of the concept. The short-term objective of the promotion programme should be to increase the level of awareness of the various groups involved, both in the private and government sectors.

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1. Small Scale Investment Credits (KIK):
 - Applications approved: - number 240,000.
 - value 900 billion rupiah.
 - Outstanding 356 billion rupiah.
2. Permanent Working Capital Credits (KMKP):
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THE CHARACTERISTICS OF THE BACKWARD INDIGENOUS SECTOR
OF A POOR COUNTRY

1. General economic indicator:

(1) Economic index

low input/worker
low income/population

2. 'Economic' forces operating on output per worker and income per head:

(2) Conditions of production

small industrial sector
absence of economies of scale
primitive and crude techniques
absence of specialisation
little capital per worker
scarcity of products requiring much capital
small savings per head of the bulk of the population
little enterprise
inadequate physical and social infrastructure
low output per acre, particularly of protein foods
concentration of exports on a few primary products
low volume of international trade per head
low labour utilisation:
 low participation
 short duration
 low efficiency

(3) Levels of living

large proportion of expenditure on food and necessities
under-nutrition
malnutrition
high mortality rates
bad housing and overcrowding
bad hygiene, public health and sanitation
inadequate medical attention
inadequate cultural facilities

(4) Aptitudes

absence of training facilities
inadequate education
illiteracy
ignorance, false beliefs and useless or harmful knowledge

3. 'Non-economic' forces operating on output per worker and income per head:

(5) Attitudes to work and life

poor discipline
 no punctuality
 caste, religious or racial prejudice
 superstition
 lack of foresight
 lack of ambition
 weak acquisitive motivation
 apathy
 lack of adaptability
 unwillingness to bear risks, venture, innovate
 inability to cooperate outside the family or tribe
 contempt for manual work
 submissiveness
 low standards of hygiene
 work-spreading attitudes
 absence of birth control and high fertility rates

(6) Institutions

land tenure hostile to improvements
 uneconomic division of plots
 poor markets for labour, credit, capital
 poor marketing facilities for products
 poor information
 weak government (national and local)
 political uncertainty
 corrupt, inefficient and inadequate administration
 rigid class, caste system,
 inequality
 absence of opportunities
 arbitrary legal administration
 non-enforcement of contracts
 prevalence of child labour
 inferiority of women's status
 weak or absent middle class

(7) Policies

soft state: unwillingness to enforce law and to legislate for
 development
 concentration on 'economic' action to escape painful
 institutional reforms
 ineffective taxation

QUESTIONNAIRE ATHE MANAGEMENT OF SUPPLIER'S CHANNEL OF DISTRIBUTION

Company Name :

Channel Code :

Q.1. What does the supplier do for its channel members?

Supplier's Activity	Exists		If Yes, The Intensity		
	Yes	No	Many	Moderate	Few
1. Supervisory visits					
2. Recommendations or advice on marketing and selling					
3. Advertising					
4. Sales promotion					
a. for customers					
b. for outlets					
5. Training					
6. Information on market and competition					
7. New products					
8. Administration system			X	X	X
9. Trade name or trademark			X	X	X
10. Incentive systems for channel members			X	X	X

X = Don't fill in (irrelevant)

Q.2. Who makes the decisions on the following aspects of the channel member's business?

M = Manufacturer

D = Dealer or Distributor

> = Has more influence on decision

= = Has same influence

Types of Decision or Activity in the Channel	M Only	D Only	M >	M = D	D >
1. Deciding on the types of merchandise sold at the sales outlet					
2. Deciding on the volume of merchandise sold					
3. Deciding on the level of inventory					
4. Deciding on the retail price					
5. Deciding on the retail sales agreement					
6. Planning channel's salesman assignments					
7. Deciding on consumer promotion programmes					
8. Deciding on the number of employees					
9. Employee selection					
10. Deciding on wages and salaries					
11. Employee placement and transfer					
12. Employee termination					
13. Decision on the type of accounting system adopted					
14. Decision on the type of administration system adopted					

	M Only	D Only	M >	M = D	D >
15. The use of gross profits					
16. Deciding on the type of investment					
17. Deciding on the amount of investment					
18. Deciding on new types of customer					
19. Deciding on sales territories and their extension					

No. :

APPENDIX CQUESTIONNAIRE B

Research on small and medium scale companies within a vertical marketing system.

Introduction

There are three ways to answer this questionnaire depending on the instruction given, namely:

1. This -- sign followed by an instruction to choose. Make this ✓ mark in front of the statement which represents or closely represents your opinion.
2. This -- sign followed by an instruction to assess priority. Write number 1 in front of the highest priority statement and a higher number for a lower priority statement.
3. For questions which ask you to explain, please write your answer in the space provided, but if the space is inadequate, use the back of the form and write the number of the question.

This questionnaire is to be completed only by the owner-manager.

The word supplier means _____

Thank you.

I. RESPONDENT'S POSITION IN THE COMPANY

1. Are you the top manager who makes the important decisions and has the final say in this company?
 - a. Yes.
 - b. No
2. How many people are actively managing the strategic affairs of this company?
 - a. One
 - b. More than one
3. Are you the owner of this establishment?
 - a. Yes
 - b. No
4. Are you the sole owner of this establishment?
 - a. Yes (go to Q.7)
 - b. No (go to Q.5)
5. Do you own the biggest share?
 - a. Yes
 - b. No

6. Are the shareholders members of your family?
- a. Yes
 - b. No
7. Did you establish this company, or your parents, or someone else?
- a. I myself
 - b. Someone else and myself jointly
 - c. My parents
 - d. Someone else, namely
- (this can be either a person or a company, such as your
your supplier. If it is a person, please specify the
relationship with you and what his job is).
8. Did the supplier help you to manage this company at the start?
- a. Yes, significantly
 - b. Yes, but only a little
 - c. No.
9. When did you start to manage this company?
10. Are the merchandise and services you sell today the same as they
were when you started your business? If not, please explain.
- a. The same
 - b. Not the same, but the difference is small.
 - c. Not the same, and the difference is substantial.
11. What percentage of your merchandise comes from your main supplier
_____ ?
- a. 100%
 - b. Less than 100%. Approximately _____% and the rest comes
from _____ suppliers
12. At the start of your entrepreneurial career, what was your primary
objective? If you had more than one objective, please rank them
starting with number one as the highest priority.
- a. To let you do the kind of work you wanted to do.
 - b. To avoid having to work for others.
 - c. To make more money than you otherwise would have.
 - d. To build a successful organization as if it were an empire.
 - e. To ensure employment and wealth for children and descendants.
 - f. Other reasons (please specify)

II. COMPANY GROWTH DATA

13. How many employees do you have in the following categories:
- | | |
|---|-------|
| (1) Permanent employees | |
| (2) Casual workers | |
| (3) Family or friends helping you without pay | |

14. How many employees did you have:

- (1) At the start of this company?
- (2) In early 1981?

15. What is your evaluation of your sales growth from 1981 to 1983 in terms of units and rupiah?

Units Rupiah

- a. Increased substantially (above 100%)
- b. Increased considerably (60% to 100%)
- c. Increased moderately (30% to 60%)
- d. Increased somewhat (10% to 30%)
- e. About the same (0 to 100%)
- f. Decreased

16. From the profit point of view, to which category does this business belong?

- a. Very profitable to Q. 18
- b. Profitable
- c. Not very profitable to Q. 17
- d. Operates at a loss

17. Do you want to stay in this business forever?

- a. Yes
- b. No

Please explain your plans _____

18. Since the start of your business up to the present, have there been any decreases or increases in the following aspects:

Aspects	Don't know	Decreased	Constant	Increased		
				Little	Mode- rately	Substan- tially
1. Type of consumer						
2. Sales territory						
3. Type of product						
4. Shop floor (in m2)						

19. Your wish for the next five years. How big will your business be compared with now?

- a. About the same because at present the optimal size has been reached (go to Q.21)
- b. To grow a little (10% to 30%)
- c. To grow moderately (30% to 60%) go to Q. 20
- d. To grow considerably (60% to 100%)
- e. To grow very substantially (more than 100%)
- f. Don't know (go to Q.21)

20. In order to fulfil your wish to grow, what steps have you taken and what is your plan? 20:x

(1) Steps that have been taken:

(2) The plan:

21. How much help do you want from your supplier? And in your opinion, how much will the supplier help you?

	Substantial	Moderate	Little
(1) Your wish			
(2) Your opinion about the degree of help that will be given by supplier			

22. What kind of investments have you made in the last year?

- a. None (go to Q.25)
- b. They are as follows

23. Is the value of the above investments small, moderate, or large compared with your income?

- a. Small
- b. Moderate
- c. Large

22-24:x

24. What do you expect from those investments?

III. THE GROWTH OF MANAGEMENT

25. If it is available, please draw a chart of your organizational structure (Use the back of this form)

- a. Available (go to Q.26)
- b. Not available (go to Q.27)

26. Is the present organization structure the same as in 1981?

- a. The same (go to Q.28)
- b. Different (go to Q.27)

25-27 :x

27. What caused the change?

28. Are you satisfied with your present organization?

- a. Satisfied
- b. Not satisfied, because
- c. I don't know

29. Is there any need to increase employees' knowledge or skills?
(Note: not for candidates or new employees)

- a. No (go to Q.31)
- b. Yes, a little (go to Q.30)
- c. Yes, substantial (go to Q.30)

30. If there is a need for training, how is it being fulfilled?

- a. Depends on employees' initiative.
- b. There is on the job training only.
- c. There is external training only.
- d. There are both on the job and external training.

31. How many of the employees are members of your family?

32. Do you have daily, weekly, montly, quarterly, yearly, long-range, and project plans? Are the plans in written form or not?

Type of Plan	Availability		Form	
	Yes (a)	No (b)	Written (c)	Unwritten (d)
1. Daily				
2. Weekly				
3. Monthly				
4. Quarterly				
5. Yearly				
6. Long-range				
7. Project				

33. Do you use periodic reports or notes with the following frequencies? Give some examples.

Report Frequency	Exist		Examples
	Yes (a)	No (b)	
1. Daily			
2. Weekly			
3. Monthly			
4. Yearly			

34. Are there any periodic reports requested by the supplier with the following frequencies? Give some examples. If there are none, please go to Q.36.

Report Frequency	Exist		Examples
	Yes (a)	No (b)	
1. Daily			
2. Weekly			
3. Monthly			
4. Quarterly			
5. Six-monthly			
6. Yearly			

35. Would you please answer either agree completely, somewhat agree, neutral, somewhat disagree, disagree completely. What is your opinion with regard to the following statements about reports requested by the supplier:

Statement	Agree Completely (a)	Somewhat agree (b)	Neutral (c)	Somewhat Disagree (d)	Disagree Completely (e)
1. Too many types					
2. Very much needed					
3. Too frequent					
4. Too detailed					

IV. EDUCATION, EXPERIENCE, AND FAMILY BACKGROUND

36. Up to what level was your formal education?
Degree/level/or latest class completed

37. Before you started your present business, did you have any of the following experience? Give examples.

Type of Experience	Experienced		Examples
	Yes (a)	No (no)	
1. As a leader			
2. As a businessman			
3. As a subordinate			

38. Do you have other sources of income besides this business?

- a. Yes
- b. No

39. Do you have other business establishments, alone or together with someone else?

- a. Yes
- b. No

40. Who influence you most during your childhood and adolescence?
Please rank.

- a. Father (go to Q.42)
- b. Mother (go to Q.44)
- c. Someone else, namely
- d. Nobody

41. What is your father's work?

42. What is his educational level?

43. What is your mother's work?

44. What is her educational level?

45. To what socio-economic class did does your father belong?

(1) Social

- a. A very prominent citizen/community leader
- b. A somewhat prominent citizen/leader in a very limited community
- c. Ordinary citizen/not a community leader

(2) Economic

- a. High income
- b. Middle income
- c. Low income
- d. Very poor

46. In brief, what ethnic group culture were you brought up under?

47. Where and when were you born?

- (1) City/area
- (2) Year

V. RELATIONSHIP WITH SUPPLIER

48. What is the basis for your current relation with the supplier?

- a. A written contract which spells out the rights and duties of each party
- b. A long history of relationships
- c. A long-term sales contract
- d. Supplier's participation in terms of shares ownership
- e. Supplier's investment in fixed assets
- f. Other reasons,

49. Would you please choose from the following five possible answers.

- a. I have full freedom to act.
- b. I have greater freedom than the supplier
- c. The supplier and I have equal rights
- d. The supplier has greater freedom than I
- e. The supplier has full freedom to act

Type of Decision or Activity in the Channel	(a)	(b)	(c)	(d)	(e)
1. Deciding on the types of merchandise sold at the sales outlet					
2. Deciding on the volume of merchandise sold					
3. Deciding on the level of inventory					
4. Deciding on the retail price					
5. Deciding on the retail sales agreement					
6. Planning channel's salesman assignments					

	(a)	(b)	(c)	(d)	(e)
7. Deciding on consumer promotion programme					
8. Deciding on the number of employees					
9. Employee selection					
10. Deciding on wages and salaries					
11. Employee placement and transfer					
12. Employee termination					
13. Decision on the type of accounting system adopted					
14. Decision on the type of administration adopted					
15. The use of gross profits					
16. Deciding on the type of investment					
17. Deciding on the amount of investment					
18. Deciding on new types of customer					
19. Deciding on sales territories and their extension					

50. For your company's survival, is there any activity on the part of the supplier in the following aspects and how important is the supplier's activity?

Supplier's Activity	Existence		If exists			Usefulness		
	Yes (a)	No (b)	Many (c)	Moderate (d)	Few (e)	Disturb- ing (f)	Not very useful (g)	Useful (h)
1. Supervisory visits								
2. Marketing and selling strategy propositions								
3. Advertising								
4. Sales promotion								
5. Training								
6. Market and competition information								
7. New product introduction								
8. Administration system			X	X	X			
9. Trade and brand name			X	X	X			
10. Incentive system for dealer/retailers			X	X	X			

X : Don't fill in (irrelevant)

51. For the survival of your business, should the current relation remain or be altered as follows?

(1) Cohesiveness

- a. Yes, increased
More activity and involvement from the supplier's side
- b. Remain as it is
- c. Yes, decreased
Less activity and involvement from the supplier's side

(2) Formality

The written form of agreement

- a. Not in written form
- b. In written form to enable both parties to remember
- c. In written form and binding, because it is legally recognized by the government

(3) Warmth/friendliness/trustworthiness

- a. Should be increased, because there are not enough.
- b. Stay as they are, because they are satisfactory
- c. None of the above, but

52. Do you agree or disagree with the following statement: without the supplier, you would not be able to be the businessman that you are today? Please explain.

- a. Agree
- b. Disagree

53. If you started this life all over again, would you choose the same supplier in order to enable yourself to become a successful entrepreneur?

- a. Yes
- b. No
- c. I don't know

Please explain.

54. Your relationship with the supplier can be symbolized as a relationship with a friend, family member etc. Please choose the symbol best representing the supplier in the following list.

The supplier for me is like:

- a. A father
- b. A distant neighbour
- c. A king
- d. A close friend
- e. None of the above, namely _____

55. Does the supplier have the capacity to make someone into an entrepreneur? Please explain.

- a. Yes.
- b. No
- c. I don't know

56. On many occasions the supplier more often acts as follows:
(choose one)

- a. Instructs
- b. Pushes
- c. Makes use of me
- d. Guides
- e. None of the above, but _____

Please explain:

57. Which role is most often expected of you by the supplier:

- a. The adult by encouraging participation
- b. The child who is expected to follow

58. Please make a final comment on what you feel about being an entrepreneur!

58 a : x

58 b : x

58 c : x

Thank you for your participation.

INTERVIEWER NOTES

1. Respondent's sex : male/female

2. Presentation of self

High Average Low

- (1) Intellectuality
- (2) Neatness
- (3) Concern for status

3. Working environment appearance

Separate/
Exclusive Mixed with
Others

(1) Exclusivity



Latest
Technology Conservative

(2) Modernity of office
equipment



Busy Quiet

(3) Activity



4. Attitude during interview

Unfriendly Formal Friendly

(1) Friendliness



Active Passive

(2) Spontaneity



5. Interview time

QUESTIONNAIRE CSUPPLIER'S EVALUATION

Company's name :

Entrepreneur's name:

1. What is your conclusion with regard to your relationship so far with this particular company and entrepreneur as regards the following aspects:

	Yes, very much so	Yes, reason- ably	No, less than I expected	Not at all
a. Are you satisfied with the relationship, particularly with your profit?				
b. Is the relationship warm and friendly?				
c. Is the relationship smooth as regards following aspects: (1) Financial matters (2) Two-way information exchange (3) Transfer of knowledge and skills?				
d. Is he active in proposing improvements?				

2. As far as the entrepreneurial aspects are concerned, what is your evaluation of this entrepreneur with regard to the following aspects:

	Very Good	Good	Average	Poor
a. Activity in looking for and making use of business opportunities, e.g. looking for new types of customers and new sales areas.				
b. Activity in enlarging his organization e.g. adding new employees, opening new branches, etc.				
c. Activity in developing the management of his business, e.g. planning very well and in writing, developing ways to control activity, goals, and money, etc.				
d. The use of profits and funds for investment e.g. to purchase goods and equipment which are productive over the long term.				
e. Self determination and not trying to depend on the supplier's help.				

3. Based on your overall evaluation so far, on what priority level would you categorize this company with regard to the continuation of the relationship.

- a. Will be continued on high priority level
- b. Will be continued on average priority level
- c. Will be continued on low priority level
- d. Will be discontinued

4. Will there be any change in the form or content of relationship with this particular company within the next one or two years?

- a. Don't know
- b. No change
- c. There will be a change, namely

5. What is your estimate of his monthly sales? Rp. _____ /month.

DATA ANALYSIS

As has been mentioned in Chapter I, the main tool for gathering data in this research is the interview, and most of the interviews were conducted with the standardized questionnaires. Besides this, other means have been used for collecting data in this research, such as mail questionnaire, unstandardized interviews, and collecting written materials.

The main questionnaires consist of three types of questions, namely:

- Fixed alternative items or closed questions
- Open ended items
- Scale items.

For a further discussion on this aspect, see Kerlinger, F.N., Foundations of Behavioral Research, Holt, Rinehart and Winston, Inc., New York, 2nd. ed., 1973, pp. 482-485. On the basis of the nature of the data collected, we can classify the data in the following categories:

1. Scores or quantitative data

Scores can be broadly interpreted to mean any number produced by a measuring instrument (See, for example, Fitz-Gibbon, C.T. and Morris, L.L., How to Calculate Statistics, Sage Publications Ltd., Beverly Hills, 1978, p. 14).

2. Non-quantified data

These are basically raw data in the form in which they were collected. They are used in this study in conjunction with data that have undergone analysis.

The quantitative data consist of the following levels of measurement:

1. Nominal scales

The aim is to sort the individuals into categories that are as homogenous as possible rather than to differentiate between categories. The basic and most simple operation of any science is that of classification. Some of the variables in this category are in dichotomous form.

2. Ordinal scales

The kind of measurement in this category is not only grouping individuals into separate categories, but ordering the categories as well. Many of the variables in this study belong to this type of scale.

3. Interval scales

Only a few variables are measured in this category, such as age, years of education, monthly sales, and variables from which scores have been obtained by manipulating the scores of other variables. An example of this last category of variable is the "supplier's influence" variable score, which is obtained by adding the scores of the 19 variables which serve as indicators of the presence or absence of supplier's influence upon small-firms' business activities.

For detailed discussion on the above aspects, see for example Blalock, H.M., *Social Statistics*, Revised 2nd. ed., McGraw-Hill International Book Company, Auckland, 1981, pp. 15-17.

On the basis of the nature of the level of measurement used in this research, of which most are in nominal and ordinal type of scales, the most appropriate type of statistical analysis is non-parametric statistics, which are often called "distribution free" statistics. One of their primary merits is that they do not assume that the scores under analysis were drawn from a population distributed in a certain way, e.g. from a normally distributed population. Alternatively, many of these statistical tests are identified as "ranking-tests", and this title suggests their other principal merit: non-parametric techniques may be used with scores which are not exact in any numerical sense, but which in effect are simply ranks. These tests are especially applicable in those sciences which deal with people, because many of our measurements typically assess individuals relatively to other individuals. For a further discussion about non-parametric tests, see for example Meddis, R., *Statistics using Ranks: A Unified Approach*, Basil Blackwell Publishers Ltd., Oxford, 1984, and Siegel, S., *Nonparametric Statistics for the Behavioral Sciences*, McGraw-Hill Book Company, New York, 1956.

A detailed description of all nonparametric statistics used here is presented by Sidney Siegel, as mentioned earlier, and Norusis, M.J., *SPSS-X: Introductory Statistics Guide*, McGraw-Hill Book Company, New York, 1983. The computation of these statistical analyses has been done with the SPSS-X programme. For detailed discussion of the programme, see *SPSS-X: User's Guide*, McGraw-Hill Book Company, New York, 1983.

In this study, the 0.05 significant level is chosen as the cut off line. In other words, when the probability associated with an observed value of a statistical test is equal to or less than 0.05 we conclude that such an observed value is called significant.

ADDITIONAL DATAAPPENDIX FTABLE 1SOME COMPARATIVE DATA BETWEEN THE EXPERIENCED
AND INEXPERIENCED ENTREPRENEURS IN VMSs *

	Min.	Max.	Median	Mean	Standard Deviation
1. Years of establishment					
- Experienced	3	29	6	8.6	6.89
- Inexperienced	3	33	6	8.7	6.34
2. Years of formal education					
- Experienced	0	15	12	11.3	2.81
- Inexperienced	6	18	12	12.1	2.93
3. Age					
- Experienced	27	66	45	44.6	10.22
- Inexperienced	26	61	37.5	39.4	8.64
4. Estimate of monthly sales of main supplier's product (in millions of rupiah)					
- Experienced	0.6	1,600	12	96.1	321.9
- Inexperienced	1	280	17	33.0	53.5

*Notes: Their entrepreneurial experience prior VMS relationship

TABLE 2SOME COMPARATIVE DATA BETWEEN SBES WHOSE FATHERS
ARE BUSINESSMEN AND NON-BUSINESSMEN

	Min.	Max.	Median	Mean	Standard Deviation
1. Years of establishment					
- Businessmen	3	33	6	9.8	7.88
- Non-businessmen	3	14	6	6.8	2.74
2. Years of formal education					
- Businessmen	0	18	12	11.5	3.22
- Non-businessmen	9	15	12	12.1	2.21
3. Age					
- Businessmen	26	66	42.5	43.4	10.29
- Non-businessmen	30	65	36.5	39.2	8.42
4. Estimate of monthly sales of main supplier's product (in millions of rupiah)					
- Businessmen	0.6	1,600	11.3	90.5	285.0
- Non-businessmen	1	75	13	18.8	17.9

TABLE 3
SOME COMPARATIVE DATA BETWEEN THE INDIGENOUS
AND NON-INDIGENOUS ENTREPRENEURS IN VMSs

	Min.	Max.	Median	Mean	Standard Deviation
1. Years of establishment					
- Indigenous	3	27	6	7.4	5.26
- Non-indigenous	3	33	7	10.1	7.69
2. Years of formal education					
- Indigenous	8	18	12	12.4	2.16
- Non-indigenous	0	18	12	10.8	3.41
3. Age					
- Indigenous	27	65	37.5	39.8	8.66
- Non-indigenous	26	66	45	44.3	10.49
4. Estimate of monthly sales of main supplier's product (in million of rupiah)					
- Indigenous	1.5	175	11.5	21.3	30.5
- Non-indigenous	0.6	1,600	16	113.7	330.7

TABLE 4
YEARS OF ESTABLISHMENT BY VMS

VMS	n	Min.	Max.	Median	Mean	Standard Deviation
1	22	4	33	6	10.6	9.24
2	12	4	15	5.5	6.6	3.20
3	14	3	29	4	6.8	6.75
4	15	4	18	12	10.9	4.17
5	14	3	33	6	6.8	4.21
Total Sample	77	3	33	6	8.6	6.57

TABLE 5
YEARS OF FORMAL EDUCATION BY VMS

VMS	n	Min.	Max.	Median	Mean	Standard Deviation
1	22	0	18	12	11.2	3.76
2	12	9	15	12	11.1	2.19
3	14	9	15	12	12.2	1.97
4	15	6	18	10	10.6	3.07
5	14	12	15	13.5	13.5	1.45
Total Sample	77	0	18	12	11.7	2.89

TABLE 6
AGE OF ENTREPRENEURS BY VMS

VMS	n	Min.	Max.	Median	Mean	Standard Deviation
1	22	30	62	39.5	43.0	9.17
2	12	26	65	34.5	41.3	13.36
3	14	29	53	36.5	39.4	8.02
4	15	30	66	49.0	46.9	10.42
5	14	32	48	35.5	41.8	5.26
Total Sample	77	26	66	39	41.8	9.73

TABLE 7
ESTIMATE OF MONTHLY SALES OF MAIN SUPPLIER'S
PRODUCTS BY VMS

(in millions of rupiah)

VMS	n	Min.	Max.	Median	Mean	Standard Deviation
1	22	3	54.5	6.5	12.1	12.51
2	12	8	99	17.0	27.4	24.87
3	14	6	14	2.5	4.1	3.95
4	15	10	1,600	75.0	262.9	475.23
5	14	7	45	13.5	20.0	13.57
Total Sample	77	0.6	1,600	13.0	63.4	227.13

TABLE 8
NUMBER OF EMPLOYEES BY VMS

(Full-time, part-time, and unpaid employees)

VMS	n	Min.	Max.	Median	Mean	Standard Deviation
1	22	4	17	6	6.9	3.32
2	12	4	15	7	7.3	2.84
3	14	3	17	5.5	6.4	3.73
4	15	4	112	18	23.9	26.27
5	14	10	58	20	26.9	14.87
Total Sample	77	3	112	8	13.8	15.93

TABLE 9
INTERVIEWER NOTES: SBEs IN VMSs
 (n=77, figures in percentages)

1. Respondents' sex	: Male = 92.2			
	Female = 7.8			
	Missing= -			
2. Presentation of self				
	<u>High</u>	<u>Average</u>	<u>Low</u>	<u>Missing</u>
(1) Intellectuality	9.1	67.5	16.9	6.5
(2) Neatness	7.8	83.1	2.6	6.5
(3) Concern for status	7.8	80.5	5.2	6.5
3. Working environment appearance				
	Separate/ Exclusive		Mixed with Others	Missing
(1) Exclusivity	29.9	27.3	29.9	13.0
	Latest Technology		Conservative	Missing
(2) Modernity of office equipment	6.5	76.6	3.9	13.0
	Busy		Quiet	Missing
(3) Activity	44.2	32.5	10.4	13.0
4. Attitude during interview				
	Unfriendly	Formal	Friendly	Missing
(1) Friendliness	-	26	67.5	6.5
	Active		Passive	Missing
(2) Spontaneity	58.4	28.6	6.5	6.5

TABLE 10
INTERVIEWER NOTES: SBEs IN INDEPENDENT SYSTEM
 (n=21, figures in percentages)

1. Respondents' sex : Male = 90.5
 Female = 4.8
 Missing = 4.8

2. Presentation of self

	<u>High</u>	<u>Average</u>	<u>Low</u>
(1) Intellectuality	14.3	76.2	9.5
(2) Neatness	14.3	66.7	19.0
(3) Concern for status	14.3	66.7	19.0

3. Working environment appearance

	Separate/ Exclusive		Mixed with Others
(1) Exclusivity	28.6	19.0	52.4
	Latest Technology		Conservative
(2) Modernity of office equipment	9.5	76.2	14.3
	Busy		Quiet
(3) Activity	42.9	28.6	28.6

4. Attitude during interview

	Unfriendly	Formal	Friendly
(1) Friendliness	-	38.1	61.9
	Active		Passive
(2) Spontaneity	47.6	38.1	14.3