

# The theoretical and philosophical underpinnings of relationship marketing

## Environmental factors behind the changing marketing paradigm

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### Introduction

The purpose of this article is to shed light on the nature of relationship marketing (RM). Is it a fad, a new area of marketing, a new marketing strategy, a new marketing concept, a new emerging school of marketing or a new marketing paradigm? The premiss here is that there is indeed a revolutionary paradigm shift taking place both in business and in marketing, and that RM is one, perhaps even a major, manifestation of that paradigm shift. It will also be shown that these paradigm shifts have clear underlying environmental causes. Finally, some of the emerging future trends, such as "virtual corporation", etc. will be introduced briefly.

It is easy to see why the circumstances that later gave birth to the concept of RM first became evident in service marketing: the customer is an integral part of the marketing and delivery process which necessitates a close relationship between the service provider and the customer. The phenomenon was identified first by such insightful writers as Berry (Berry *et al.*, 1983), Grönroos (1990) and McKenna (1991), to name just a few. Although McKenna has often been credited with the term "relationship marketing", it was first defined and analysed in scientific literature by Berry. As Grönroos points out, interestingly enough, there was also a parallel development in industrial marketing which contributed to the development of RM.

It will be shown that early attempts to formulate a general theory of marketing already included a relationship perspective. However, this perspective did not acquire the importance it has today, because the environmental factors were not sufficiently strong at the time. Thus there have been in fact two routes to the present-day RM. The first was a gradual realization of the importance of relationships, initially in service marketing and partly in industrial marketing.

The second route was through a transformation of business in general, due to rapid and radical changes in the environment. These changes resulted in an emphasis on service, close customer contact, and a holistic view of the parties and processes involved in marketing and business. The emphasis on a holistic

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**The theoretical and philosophical underpinnings of relationship marketing: environmental factors behind the changing marketing paradigm**

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**Keywords** Marketing theory, Paradigms, Relationship marketing, Services marketing

Discusses the theoretical and philosophical underpinnings of relationship marketing (RM) to show that RM is but one, albeit perhaps a major, manifestation of the ongoing paradigm shift in business and marketing. The rapid revolutionary changes in the economic and technological environment of business (such as the information revolution) made simultaneously both possible and necessary the changes that can be summarized as a fundamental paradigm shift. Further, it can be argued that this paradigm shift itself is a logical end result of two phenomena: the perennial quest to get closer to the customer and the ever widening scope of business and marketing towards a holistic view of the processes. The external and internal forces that led to the paradigm shift in business and marketing were manifested early in service marketing for natural reasons. Thus it is understandable that the concept of RM was first conceived of in service marketing but it is by no means limited to it. The parallel development in business is often labelled partnering (strategic alliances and partnerships).

**The value concept and relationship marketing**

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**Keywords** Customer satisfaction, Quality, Relationship marketing, Value

The value concept is a basic constituent of relationship marketing. The ability to provide superior value to customers is a prerequisite when trying to establish and maintain long-term customer relationships. Stresses the fact that the underlying construct of customer satisfaction is more than a perception of the quality received. What must be taken into account as well is the customer's need of quality improvements and his willingness to pay for it. From a relationship perspective

these aspects are fundamental, since they are both related to the costs of the parties involved. Suggests that a reduction in customer-perceived costs may be a most recommendable method of providing value to the customer, since, done properly, it can improve the internal cost efficiency as well. It is then possible to establish and maintain mutually profitable customer relationships, which is of prime concern in relationship marketing.

**Relationship marketing and imaginary organizations: a synthesis**

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**Keywords** Interaction, Networks, Norway, Organizational theory, Relationship marketing

Explores the dependency between relationship marketing (RM) and new developments in organization theory. In RM, relationships, networks and interaction are in focus. The primary role of marketing is to connect suppliers and customers but RM also includes relationships with other stakeholders, both inside and outside the organization. Presents a theoretical discourse based on two recent developments in Nordic research. One is RM and its emergence from traditional marketing, services marketing, the network approach of industrial marketing, and quality management. The other is research concerning imaginary organizations, in which the organization consists of a network of relationships between suppliers, customers, subcontractors, competitors, authorities and others, rather than being a structure with clear boundaries. The synthesis of RM and imaginary organizations leads to the concept of complete marketing equilibrium, where not only the market but also the organization and society are included in a network of interactive relationships.

**An alternative view of relationship marketing: a framework for ethical analysis**

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**Keywords** Ethics, Marketing management, Relationship marketing

At present, a continuing widespread debate on the moral nature of business is widely recognized. However, it seems that the ethical

view of the supplier-manufacturer-customer chain and process quickly became visible, for example in total quality management.

### **The emergence of RM in service and industrial marketing**

After the post-industrial or service economy, most of the developed world is now entering a new, information economy. Perhaps it was natural, then, that the new developments first appeared in the maturing service industries of the 1970s and 1980s. Berry *et al.* (1983) surveyed the factors and developments in service marketing that later gave rise to RM. These factors include the combined impact of low growth rates and deregulation, resulting in “everyone getting into everyone else’s business”. This naturally meant increased competition. According to the writers, this forced companies to think more in terms of “keeping customers” as opposed to only “winning new customers”.

According to Berry *et al.* (1983, p. 26) a customer relationship is best established around a “core service”, which ideally attracts new customers through its “need-meeting character”. However, creating customer loyalty among the old customers is one of the main goals of RM. The authors also mention “frequent flyer” programmes and other incentive programmes intended to encourage customer loyalty by rewarding it. Finally, Berry *et al.* (1983) define internal marketing as a “pivotal relationship marketing strategy”, where employees are seen as customers inside the corporations.

At the same time, Grönroos (1990) developed several new concepts in service marketing, which were later incorporated as part of the so-called Nordic School of Services. Grönroos also shows how one of the central characteristics of service marketing gave rise to the notion of RM: in service marketing there is often no separation between production, delivery, and consumption, thus the buyer-seller interaction must be considered as part of marketing’s task. And this task can only be fulfilled in a relationship with the customer. Strangely enough, traditional marketing concepts omitted or ignored it.

Industrial marketing has traditionally been seen as different from consumer or service marketing. As Grönroos (1990, p. 152) points out, tasks other than traditional marketing functions are important in industrial selling. These tasks may include repairs, servicing, maintenance, delivery, product development, installation, training, etc. Performing these tasks necessitates a close seller-buyer connection and often involves partners other than the seller and the buyer. Consequently, even if the term “relationship marketing” was not used in industrial marketing, the nature of industrial marketing clearly demonstrates several of its core characteristics.

### **Recent attempts to formulate a general theory of marketing and RM**

Sheth *et al.* (1988) presented a noteworthy overview of marketing theory and, instead of a general theory of marketing, found 12 schools of thought. The list did not then include RM, even though the authors did use the term once. It is one

of the best recent works on marketing theory, and therefore deserves some attention here. Basically, their work shows how the ideas behind RM have already been naturally incorporated into the marketing theory, even if RM itself has only recently acquired the specificity and prominent position that it occupies today.

Regarding the marketing paradigm, Sheth *et al.* (1988, p. 3) note:

Throughout its history... marketing thought has been generally dominated at any one point in time by one prevailing perspective.

Sheth *et al.* (1988) argue that after a strong customer behaviour orientation, the prevailing perspective today is that of “strategic marketing”, with its emphasis on competitive advantage. They survey some of the early attempts at formulating a theory of marketing and note, among other things, that most of them included a notion of marketing as an exchange process between consumer and supplier groups. Sheth *et al.* found one school of thought called “interactive”, which specified four main variables that define the nature of the connection between the actors or groups. These variables included so-called “relational variables”.

According to Sheth *et al.* (1988) the so-called “managerial school” is the dominant school of thought. It has generated several universally accepted constructs, such as marketing mix, market segmentation, product life cycle, and strategic market planning. This managerial school perspective was recently questioned by Grönroos (1994), who suggested that the “four Ps” or “marketing mix” approach is too limiting for interaction/network and RM perspectives. Instead, he recommends an RM-orientation, especially for service marketing and industrial marketing which need a long-term perspective.

Without naming it as such, even Sheth *et al.* (1988, pp. 191,193) adopt basically an RM perspective:

Marketing is the study of marketing behavior,...[which includes] the behavior of buyers, sellers, intermediaries, and regulators in exchange relationships...The fundamental unit of analysis in marketing is, or should be, the market interaction between two or more parties.

Later Sheth *et al.* (1988, p. 194) use the term “relationship marketing” in a rather narrow sense:

... it is very likely that the domain of marketing will be defined around, not only the market, but also the concept of *repeated market transactions*, what is more popularly called “relationship marketing”.

Finally, Sheth *et al.* (1988, pp. 195-6) ask “what is, or should be, the dominant perspective in marketing?”, and answer:

Each perspective...represents only a partial picture...In our opinion, the main purpose of marketing is to create and distribute values among the market parties through the process of market transactions and market relationships.

The purpose of marketing stated in this manner, while a broader notion, still comes very close to the traditional view of customer satisfaction as the purpose.

Recently, Morgan and Hunt (1994) presented a “commitment-trust theory” of RM and began with an extensive review of RM definitions. The definitions include, for example, the following concepts: contracting, relational marketing, working partnerships, symbiotic marketing, strategic alliances, co-marketing alliances, internal marketing. They also quote RM definitions by several other writers. These include RM as a part of a developing network paradigm.

Morgan and Hunt (1994, p. 22) criticize these recent definitions of RM for not recognizing that:

...many instances of relationship marketing do not have a “customer” as one of the exchange participants. Strictly speaking, in strategic alliances between competitors... there are neither “buyers”, “sellers”, “customers” nor “key accounts” – only *partners* exchanging resources.

Consequently, there is a wide definition of RM: basically, as any relational exchange between any marketing partners, which are therefore not limited to buying and selling. Recently, Berry and Parasuraman (1991, p. 133) argued that RM quite simply “concerns attracting, developing, and retaining customer relationships”.

### The Nordic School of Services and RM

The main role and contribution of the so-called Nordic School of Services and of Nordic authors has been in helping to extend the notion of RM from service marketing to general marketing to the point of defining RM as the new marketing paradigm. The pioneering role of Grönroos has already been mentioned in the context of the emergence of RM in service marketing.

Grönroos (1990) discusses RM still mostly in the service marketing context, but he clearly begins to expand the concept to encompass marketing in general. He also emphasized the following fundamental notions in RM: long-term and enduring relationships as the main objective and exchanges between several parties or networks of participants as the main units of interest. Finally, he concludes that:

The relationship definition... is truly a *market-oriented definition* (Grönroos, 1990, p. 140).

In a recent article, Grönroos (1994) presents a comprehensive review of the development of RM. Crucial elements in this development include: interactivity; network approach; long-term perspective; internal marketing; trust; and exchange of promises. Nordic authors figure prominently in the development of these notions.

The latest trend is to deepen and develop the concept of RM further as well as testing it empirically by applying it to various areas of marketing and various industries. Examples of the former type cover dimensions such as interactive relations and internal marketing (Glynn and Lehtinen, 1995); measuring the intensity of RM (Lehtinen *et al.* 1995); strength and quality of the relationship

(Liljander and Strandvik, 1995); and the quality and profitability of the relationship (Storbacka *et al.*, 1994).

As examples of recent Nordic literature including empirical testing of the RM concept, the following works include case studies on companies engaged in service, consumer and industrial marketing (Lehtinen, *et al.*, 1995), a case study on a professional services company (Halinen, 1994), and an attempt to apply the RM approach to the changing Russian market (Lehtinen, 1995).

### **Forces behind the emerging new business paradigm**

Marketing and business scholars and practitioners, independently of one another, have arrived at the same conclusion about the importance of close and enduring customer and other market relationships. For this reason, the term “relationship marketing” has not always been used in all contexts. It is interesting to see the effect of some of the environmental forces.

Increase in affluence, buyer’s market, trade and investment liberalization, globalization, technological innovations, computer and telecommunications developments (information revolution), etc. have combined to create a state of unlimited customer choice, a higher level of competition (sometimes called hypercompetition) and an ever-increasing pace of change. Companies find themselves having simultaneously to lower their costs, improve efficiency, raise the level of quality and service, as well as speed up innovations and the innovation cycle.

Typical strategic responses to these often conflicting demands have been flexibility, standardization and customization. In order to be flexible, companies must de-layer hierarchies, streamline and re-engineer their operations, etc. In order to achieve simultaneous customization and standardization, companies have formulated an innovative solution – the modular design. Service is one of the key competitive tools: its importance is not limited to traditional service industries or serviceable products. For instance, a large Finnish steel manufacturer recently declared that its competitive advantage is service. At the core of its service concept are a close partnership with customers and increased customer responsiveness through the use of electronic data interchange (EDI).

Tapscott and Caston (1993) have recently presented a comprehensive view of the ongoing paradigm shift described above. Paradigm, in its simplest definition, is our world view in any particular field. It tells how we view, understand, and explain the world. The authors point out that the term has moved beyond its original definition by Thomas Kuhn, and is used often loosely in the following senses: a scheme for understanding reality, framework, a way of thinking and even a broad model.

In their view, this new business transformation shows seven key characteristics:

- (1) higher productivity of knowledge and service workers;
- (2) higher quality expectations;

- (3) need for better and faster responsiveness (even mass customization);
- (4) globalization;
- (5) outsourcing;
- (6) partnering (“extended enterprise”);
- (7) employee empowerment combined with social and environmental responsibility.

Another interesting aspect of the paradigm analysis by Tapscott and Caston (1993) is their creative juxtaposition of the information technology changes with the changes in today’s businesses. There seems to be a clear correspondence between the two. Several writers have already noticed how the massive mainframe computers reflected perfectly the industrial age businesses with their massive, centralized, highly specialized and complex structures. Today’s computers are moving towards powerful and flexible small PCs interconnected into networks.

Tapscott and Caston (1993, pp. 13-27, 209-19) expand this information technology metaphor considerably by adding several additional aspects, from:

- closed to open system;
- delayed to real-time/instant;
- personal to work-group;
- stand alone to integration;
- internal to interenterprise;
- host-based to network-based;
- standardized monolith to flexible modular;
- sequential to parallel, etc.

Many of these changes go hand in hand: while the information revolution requires that companies become ever more flexible, fast, lean and innovative, at the same time it offers them the tools to make these changes possible. Thus it becomes a self-reinforcing process. It is easy to see how the RM perspective is a common unifying and underlying theme for most of these developments.

Interest in the ongoing business paradigm shift is not limited to thinkers and researchers, it has not gone unnoticed by the business practitioners. Ray (1992, pp. 31-2) quotes a Wharton Business School report on a consensus among corporate CEOs on the ongoing business transformation. The lengthy list included 22 items, such as empowerment, flexibility, cross-functionality, networking, being customer/market driven, to name just a few.

### **The new marketing paradigm**

Most changes in business have a direct parallel in marketing. Two examples will suffice: first, as we have already mentioned, service is becoming a major competitive tool and basis for differentiation in most industries today. In that



sense, we can argue that the difference between service and physical goods industries is getting blurred as most industries are becoming service industries. Second, in order to be flexible and innovative in product development as well as in marketing, in the quest for customer retention and customer loyalty, most companies are forced to move ever closer to the customer.

All these changes necessitate a close relationship, often called strategic partnership in business. This, in fact, is just another name for RM. Thus it is easy to see that the same kinds of forces (rising competition and the need to get closer to the customers to keep them and win their loyalty) that earlier led to the notion of RM in services, have later come into play in the rest of the industries, but faster and with a greater vengeance. This correspondence between the partnership approach in general business and the RM approach in marketing is apparent, for example, in a recent article by Kanter (1994) where she discusses strategic alliances from a business perspective, and yet uses terminology and language which belong distinctively to RM. The caption above the title summarizes the message:

Successful partnerships manage the relationship, not just the deal (Kanter, 1994, p. 96).

It has been suggested that the new business paradigm be called the "strategic flexibility" paradigm, as the old inflexible industrial age paradigm does not work any more. It was based on the notions of extreme specialization, functional separation, standardization and control, to name just a few of its characteristics. It led easily to inflexibility, complexity, large size, delay, unresponsiveness, etc. This notion of strategic flexibility is also relevant to marketing.

The marketing paradigm expresses what we think is fundamental in marketing. The modern marketing paradigm has already gone through a couple of fundamental changes. Traditionally, we view the marketing concept as having evolved from production orientation (circa 1900-1930), to sales/distribution orientation (circa 1930-1950), to customer orientation (circa 1950 to present). A common theme seems to be running through all these evolutionary stages: a perennial effort to satisfy the customer better by getting closer in touch with the customer. The new emerging marketing paradigm could thus be called relationship orientation. We have come to a point where a holistic view on this relationship is warranted.

The proponents of a holistic RM view have gone as far as claiming that soon a company will no longer be truly effective in satisfying the customer needs if its co-operation with other parties involved is not equally close and does not run equally smoothly. This may not be required of all or even most companies in the future. However, many companies today are beginning to create close networks of relationships with their own personnel, their own suppliers, financiers, and competitors, etc. in addition to their primary customers.

In international marketing, RM manifests itself in the mode of operation and in the degree of internationalization. Companies are slowly moving closer to foreign customers in order to learn more about their needs and how to satisfy

them. The only way to gain this valuable information and the ability to react quickly is to move close to the customer, that is, to establish abroad. Most high-tech companies are moving close to their foreign customers and establishing R&D centres in their main foreign markets.

Small high-tech companies with innovations often must get to the market quickly, before the technology is outdated or overtaken by competitors. And yet they usually lack the necessary resources to expand rapidly. Thus they are often forced to choose a strategic alliance as the mode of operation. This will enable them to benefit from the resources of a larger established partner, who, in turn, gains new technology and a new product.

The new RM approach has begun to spread in marketing literature. Schill and McArthur (1992, pp. 5-24) recently suggested that the "multi-organizational competitive unit" created by co-operating partners should be the new unit of analysis for (international) marketing. This is probably a valid approach for studying such partnerships. The marketing perspective used by the authors was close to RM.

On the one hand, there is a growing consensus on the definition of RM as including the following aspects: a close, long-term relationship between various participants (network) involved in exchanging something of value (total marketing process). Sometimes the notion of "for profit" is included. Grönroos (1994, p. 5) defines the exchange process as "mutual exchange and fulfillment of promises". On the other hand, there are still some differing views on how some of these concepts relate to one another. For example, Grönroos sees RM as including the network aspect, whereas Morgan and Hunt (1994) define RM as part of the developing "network paradigm".

Definitions of RM often use as central criteria such factors as the duration and the closeness of the relationship, the number of parties, and the scope of processes involved in the co-operation. These central definitional dimensions of RM can be combined in two dimensions: time perspective and closeness/depth of the relationship, as well as the number of participants and the scope/extent of the processes. A simple matrix illustrating these dimensions is presented in Figure 1. This kind of matrix yields four types of relationships: at one end is the situation where both duration and depth of the relationship and the number of participants-scope are low. This would seem to correspond to an approach commonly called "transaction marketing". The situation where duration and depth as well as number of participants and scope are high would seem to correspond to a most involved RM with an extended network of relationships. The two other cells represent intermediary approaches.

RM is indeed a suitable name for the new marketing concept in a very holistic sense. Thus it is not a separate area of marketing or even a separate strategy, but, increasingly, an RM perspective may be needed for surviving and prospering in today's markets. More and more companies are finding themselves doing just that, consciously or unconsciously.

**Figure 1.**  
Definitional dimensions  
of RM

Duration and depth of the relationship	High = LT continuous and involved focus	RM	Relationship and network marketing
	Low = ST discrete and uninvolved focus	Transaction marketing	Network transactions
		Low = limited partners (buyer-seller focus) and limited processes	High = expanded partners and expanded processes
		Number of participants and scope/extent of the processes	

### RM in the future

We can assume safely that the movement closer to the customer will continue. But how can a company get closer than a close relationship? It is possible to see some signs and trends already in today's marketplace. Two clearly discernible trends are worth mentioning: total customer integration in the design and production process and the so-called "virtual marketing" and "virtual corporation".

Mass customization to the point of complete integration of the customer in the design, production, and service process provides another example of how most industries are beginning to resemble service industries, and why it is easy to understand that many of these trends first became visible there. Complete customization and customer integration is already practised in some industries. Some of the existing examples include: customer selection of music on a CD disc recorded instantly at the store; movies and books, where the customer designs the plot and ending to suit his/her preferences; customized newspapers and news services, etc. Computers are increasingly customized, both in terms of hardware and software. This, in turn, has already given rise to a new industry: system integrator services. It is quite feasible that this type of profession and service will spread to other ultracustomized industries.

Completely customer-designed automobiles have already been considered by the Japanese car manufacturers – the only remaining obstacle is the need to carry a prohibitively large inventory. However, as the car manufacturers and their suppliers perfect their strategic partnerships, EDI-based instant reaction and delivery, even this threshold can be removed.

This mass customization and ultimate integration of the customer in the product design process can be seen as a logical next phase in the maturing of the RM approach. However, there is another development on the horizon that is brought about by the information revolution: the so-called virtual corporation

and virtual marketing. It will be interesting to follow this development, and to see if it can be logically included and absorbed by the relationship paradigm, or whether it will represent the next paradigm shift.

In addition to the changes mentioned previously, the information revolution is also slowly freeing the businesses and their customers from the constraints of time and place. In order to get a glimpse of potential future business and marketing, we can carry out a simple exercise: simply adding the qualifiers “real-time or instant” and “location-free” in front of any business activity. This would entail, for example: instant, location-free purchasing, manufacturing, service; and, likewise, instant, location-free marketing. This will ultimately produce the so-called virtual corporation. This kind of virtual banking is already practised by some forward-looking US and Asian banks. Using cellular phones and modems the customers of these banks can call up their bank any time anywhere and carry out all financial transactions, including the trading of foreign currencies, securities and stock.

It is interesting to note that virtual marketing would require close, constant, instant and location-free communication and access between the suppliers and customers (as well as other participants in the supply process), and this is certainly in perfect agreement with the principles of RM.

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