

## SYSTEM REFLEXIVE STRATEGIC MARKETING MANAGEMENT

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### **Abstract**

*This article reviews the System Reflexive paradigm of strategic marketing management, being based on the alignment of strategic economic interests of stakeholders, specifically, enterprise owners and hired managers, and consumers. The essence of marketing concept of management comes under review, along with the strategic management approaches to business, buildup and alignment of economic interests of business stakeholders. A roadmap for resolving the problems of modern marketing is proposed through the adoption of System Reflexive marketing theory.*

**Key words:** *marketing, strategic management, strategic marketing, system reflexive marketing, reflexive management.*

**JEL Classification:** *L22, M10, M31.*

### **I. INTRODUCTION**

Strategic management, as a framework to business administration, is currently experiencing rapid development. Strategic planning, until late considered a basic model for strategic management, proved its inefficiency in the stringent context of market globalization and world economy recession. Thus emerged the need for discussing and developing a new paradigm of strategic management.

The concept of Strategic Management has been extensively studied by many theorists, including David A. Aaker, Igor H. Ansoff, Jean-Jacques Lambin, Peter Lorange, Henry Mintzberg, Michael E. Porter, Gary Hamel, C. K. Prahalad, Arthur A. Thompson Jr., A. J. Strickland III, George A. Steiner, John B. Miner, Michael J. Stahl, David N. Grigsby. From the post-Soviet perspective, questions of Strategic Management and Strategic Marketing have been researched by Bagiev G. L., Vikhansky O. S., Golubkov E. P., Kevorkov V. V., Lipsits I. V., Nikiforov S. V., Pankrukhin A. P., Rayko D. V., Starostina A. A., Fathutdinov R. A., Shkardun V. D. and others.

The majority of authors concur that strategic marketing is becoming the foundational framework for modern enterprise management.

However, strategic management and strategic marketing are often treated as independent management systems. It is more common in the business operation that practical application of marketing concept is implemented by means of various marketing tools. Apart stands the internal marketing that is commonly considered a vehicle for delivering enterprise ideology to employees. Neither in strategic management nor in strategic marketing, the problem of alignment of economic interests of company's owners, managers and employees, as well as suppliers, customers, consumers and competitors has never been approached system-wide. This practically leads to escalation of conflict, and theoretically—to the lack of system-level handling of specific notions, such as "economic interest", "alignment of interests", and the roles that strategic marketing and strategic management play in the processes of interests alignment.

### **II. SETTING THE PROBLEM**

A conflict between enterprise owners and hired executives has become a topical issue recently. Owners stay uptight about retiring from the operations management due to substantial risks of losing their own business. Hired executives, in turn, are forced into attending the ever-changing ideas and moods of owners instead of building up effective strategies. This vicious cycle compromises the efficiency of business, which already had

outgrown an entrepreneurial level, also impairs fund raising (through IPO and such) and undermines internal climate in the organization.

The business at a whole can be identified as a tool for meeting the interests of formal and actual owners. Let's separate these notions. Formal owner is a person whose ownership is certified by legal documents or any other agreements with legitimate owners. Actual owner, on the other side, is a person who uses the given business to realize their own interests.

Particular interests of the actual owner (or owners) are becoming the driving force of a business. However, actual owner can be, at the same time, a formal owner as well as a hired chief executive or any other person from internal or external environment of an organization (contact audiences). The key characters (including formal owners, hired executives or others)—with specific interests that must be taken into account in the frame of developing the vision of an enterprise — will be referred to as Stakeholders. It is important to note, that stakeholders not necessarily pertain to the senior executives board of an enterprise. A stakeholder may represent any of the contact audiences, or appear to be the person to some extent associated with the business leader. Stakeholders may as well belong to customers or consumers. Specific interests of stakeholders correspondingly impact their actions, aimed at transforming the business.

The essence of the marketing concept of management lies within the realization of personal interest by means of contributing to the interests of the counter-agent in the exchange process. Most commonly, counter-agent is referred to as a consumer. Accepting the interests of a counterpart in the exchange process is the key principle beyond the marketing concept. Current trends in the development of market management methods have lead to the fact that addressing the actual interests of consumers is no more a key driver for a company's growth, due to saturation of the most product markets. The new source for business development turns up to be the realization and generation of new demands (interests). Therewith, among the parties engaged in business development (besides the consumers), other internal and external stakeholders can be uncovered.

Consequently, arises the task of building up the new marketing management paradigm—centered on strategic marketing approach to alignment of economic interests of all the stakeholders of the subject of management (business).

### **III.FINDINGS**

To summarize, the main problems of marketing in Ukraine can be outlined: (indicated below is the per cent share of problem's occurrence; sampling: 387 enterprises of different types of ownership; research period: 2007–2012; research carried out by Advanter Group in Russia, Belarus, and Ukraine)

- Perception of marketing as a separate business function or set of business tools, rather than the business management paradigm (92%).
- Noninvolvement of company's employees into marketing, failure to comprehend the essence of marketing or activities and functions of marketing department by the rest of the staff (84%).
- Poor efficiency of marketing activities (77%).
- Funding the marketing activity by the leftover principle (58%).
- Top management perceives marketing as a function of marketing department; low priority of marketing in the business operations (81%).
- Marketing researches have no impact on managerial decision-making process (49%).
- Disruptive functional conflicts on the "Marketing–Sales" level (73%).
- Primacy of creative approach to marketing while disregarding the strategic approach (59%).
- Poor level of expertise among marketing managers; establishing the marketing functions by the leftover principle (64%).
- Domination of standardized marketing strategies, adopted by foreign companies in Ukraine—the majority of leading Ukrainian marketers, employed by foreign enterprises, have limited responsibilities, are not involved in the process of market development, though are held in respect by the professional marketing community at the expense of huge marketing budgets and ad campaigns (60%, sampling: 48 companies).
- Commitment of marketers to promoting the self-brand, rather than the business efficiency (36%).

According to our reckoning, the majority of the above problems result from senior executives and owners' inadequate comprehension of the marketing essence and its role in the business management.

Let's summarize the problem of aligning the business interests of a specific group of persons. A business can be revealed, at the same time, as an object or as an instrument in a single or multiple management systems, which may draw on different management paradigms.

Simplified system: formal owner is the actual owner, all at once being the chief executive officer of the business. In this case, inner role conflict can be rather constructive, given the self-reflexive attitude of the owner. A conflict generally occurs between two or more interests that a person is guided by. For instance, promoting personal social status and, on the other hand, increasing operational revenue implies adopting different business strategies.

More complex system suggests that different people hold positions of formal owner and chief general manager (managing or executive director, CEO, president—the title not necessarily reflects the matter). Whereby the position of actual owner is taken up by a person with superior rank of reflexive attitude and the most comprehensive view of business and its environment. Realization of interests of such a person becomes a key priority of the enterprise. A conflict of gaining the actual ownership of the business may arise inside the group of formal owners and hired executives.

Alternatively, stakeholders of a business may represent consumer group (where the classic concept of marketing management is implemented), as well as competitors, suppliers, contact audiences, etc.

Stakeholders' interests may draw on the following:

- Ambitions, visions, desires (cognitive interest, gaining specific status, personal fulfillment, building/maintaining relationships, material security, etc.)
- Ideas
- Capabilities
- Resources (for example, the key interest of agricultural business manager may operate from the notion: "The land must be cropped")
- Liability (self-preservation, etc.)

It is to be noted, that interests of stakeholders are getting globalized in the course of market environment globalization. This indicates the following:

- In the process of interests alignment it is essential to bear in mind the potential distortion of geographical coverage of different stakeholders' interests.
- New stakeholders from other market geographies may occur, asserting their own interests towards the object of management, on the primary market.
- Interests of specific stakeholders may concern only some of the local strands of the global business (thus the minor subject of management shall be regarded).

Depending on the nature of subjects, whom we consider stakeholders, different models of management can be segregated, defining the form of object management (Fig. 1).

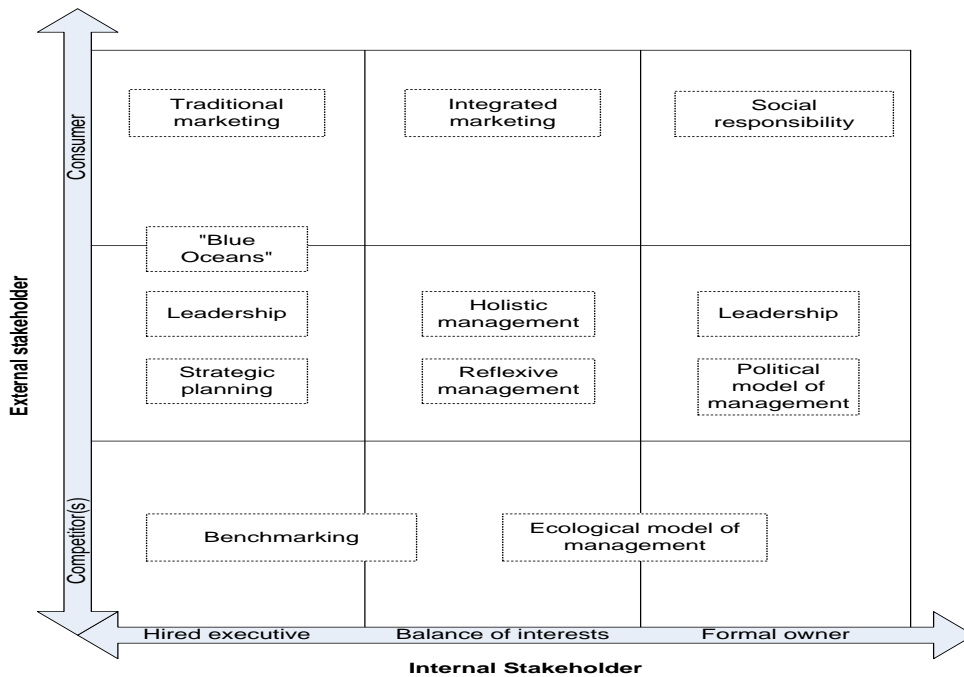


Figure 1 – Models of Strategic Management aligned to internal and external stakeholders

One of the most coherent models from the perspective of aligning the stakeholders' interests proves to be the Reflexive Control concept.

American management theorist T. L. Thomas defines Reflexive Control as a method of communicating the purposely designed information to a party, or a rival, with intent to bias them and adopt a "voluntary" decision for the benefit of the initiator. This theory was introduced in the 60s Russia; however it is still being developed (Thomas, 2004).

Vladimir A. Lefebvre—the author of Reflexive Control theory—draws the following definition: Reflexive management is a special method of influencing a rival for the purpose of making a decision, beneficial to the starter (Lefebvre, 1966). According to V. A. Lefebvre, the essence of reflexive control involves exploiting the capabilities of a subject to "voluntary design the images of self and others".

The combination of reflexive control insights with the marketing concept allowed for molding a concept of System Reflexive Marketing.

System Reflexive Marketing—is a marketing theory where management is carried out through system-level distribution of interests of economic agents—and the alignment of the interests is exercised from the perspective of reflexive marketing manager.

System Reflexive Marketing—is a special approach to management, built upon the following key principles:

1. The actual owner of the object of management—the person who determines the direction and transformation of the object—is a stakeholder with superior rank of reflexive attitude, i.e. the one who has got systematic and clear vision of the management object, its stakeholders and their interests, also the environment (the principle of System Reflexion).

2. The actual owner of management object realizes their interest by means of aligning it with the interests of stakeholders (the principle of Marketing). The actual owner engages stakeholders into the object of management.

System Reflexion Rank implies certain level of realization of management object, coverage in the process of situation analysis, and elaboration of managerial decisions by the affluent economic agents, specific to their interests. System reflexive marketing covers different levels of marketing decision-making process, due to the rank of reflexion:

0. Process of sales.
  1. Relationship marketing. Tools of influence marketing.
  2. Customer behavior management. Demand generation, sales promotion.
  3. Classic marketing: Marketing Mix, positioning, functional marketing strategies.
  4. Category management.
  5. Strategic marketing. Alignment of internal stakeholders' interests via defining the strategic vision.
  6. Strategic management from the perspective of the actual owner of business.
  7. The market is considered as an object to management. Formation of new markets ("Blue Oceans").

Based on the methodological principles of system reflexive management, we have developed a concept of strategic marketing. Here we implicate System Reflexive Strategic Marketing Management. It does not contradict the traditional concept of strategic marketing and strategic marketing management of an enterprise (and its business activity). Yet still, there are certain distinctions, and they are as follows (Table 1):

**Table 1. Traditional vs. System Reflexive Marketing paradigms**

Traditional marketing concept	System reflexive marketing
Traditional marketing, along with strategic management, refers to an enterprise as a subject of management. Accordingly, an enterprise is considered a closed system operating in the market environment.	Subject of management is referred to as a person that may represent the group of actual owners or hired managers, or may not (for example, consultant; customer, in case of monopsony; technology guru; ad campaign identity; etc.).
Market environment may exist as controlled and uncontrolled.	Market environment can be manageable and conditionally unmanageable. If Reflexive Marketing Manager (RMM) knows that certain factor of market environment conceptually does not imply the manager, RMM may, when applicable, include this factor in the management object.
Market environment cannot be neutral towards the enterprise. An enterprise may deploy proactive or reactive policy, relative to the environment.	Market environment (or a market itself—in the ultimate case) appears as an object to management.
Different marketing frameworks exist concurrently: marketing as a set of tools in the commercial paradigm of business management, traditional marketing (4P), relationship marketing, holistic marketing, and so on.	System reflexive marketing enables coexistence of different types of marketing (in terms of approaches to management) within a single business. System reflexive marketing addresses different approaches to defining marketing roles and methodologies, according to different ranks of system reflexion of the subject of management.
Customer is considered to be rational—with conscious interest.	Customer is considered to be irrational (subjectively rational)—with subconscious interest.

Marketing is pointed on serving customer interests.	Marketing is pointed on building up customer interests.
Marketing involves the study of interests of market counter-agents (through marketing researches).	Marketing implies management (and study as well) of interests of market counter-agents.
Subject of management is considered as one of the parties in the process of interests alignment.	Subject of management (reflexive marketing manager) may act as a subject in the process of interests alignment, herein holding a reflexive position towards the other subjects of interests alignment. RMM supervises the process of interests alignment, i.e. takes up the external stand, instead of operating from the inside of a relationship. Basically, RMM does not align the interests, but creates conditions for the alignment.
In the ultimate case, marketing is regarded as a theory and practice of business management (strategic marketing management).	In the ultimate case, marketing (system reflexive marketing of 7 <sup>th</sup> rank) is regarded as theory and practice of market management.
Subject of management deals with incomplete and asymmetric information in the process of decision-making. Correspondingly, decision taking is based on refining the information.	Subject of management deals with incomplete and asymmetric information in the process of decision-making. Correspondingly, the output function of subject of management turns out to be the process of building up the knowledge system—where the interests of counter-agents are integrated into the management object. One of the subjects of single object to management—who has got better understanding of the situation about the object, affluent counter-agents and their interests—gains the capabilities for more effective transformation of the object in accordance with personal interests.
Traditional approach to strategic management reckons marketing strategy as an integral part of the corporate strategy, strategies of subdivision and business units.	System reflexive strategic marketing management identifies marketing strategy as a background (aggregate of base solutions) for corporate strategy and sublevel strategies.
Initial solution corresponds to shaping the vision of an enterprise, and decomposing it into the system of strategic objectives.	Initial activity of the subject results in the realization of the management object, their personal interests towards the object, along with the management of vision designing process (alignment of stakeholders' interests).

In reliance on the research data, we have found a direct correlation of the success of business activity and the rank of system reflexion of a manager.

We have identified methodological background, system of methods and tools—aimed at implementing the System Reflexive Marketing (SRM) as guidance for strategic management of business activity.

It was determined, that the actual owner of the management object—the person who determines the direction and transformation of the object—is a stakeholder with superior rank of reflexive attitude, more specifically, the one who has got systematic and clear vision of the management object, its stakeholders and their interests, also the environment (the principle of system reflexion).

The actual owner of the management object realizes personal interest by means of aligning it with the interests of stakeholders (the principle of marketing). The actual owner engages stakeholders into the extended object of management.

System Reflexive Marketing (SRM) is defined as a theory and practice of management, carried out through the system-level distribution of economic agents' interests, and the alignment of their interests from the perspective of reflexive marketing manager.

SRM defines the strategic vision of the management object and strengthens the activities on transforming the object, by means of realization of personal strategic interests (as a subject of management) together with intentions and actions of market counter-agents, and through creation of conditions for realizing the personal interests as well as interests of market counter-agents.

System reflexion rank of a subject of management defines the role of marketing (from a tool in the management technology to the technology itself), as shown in the Table 2.

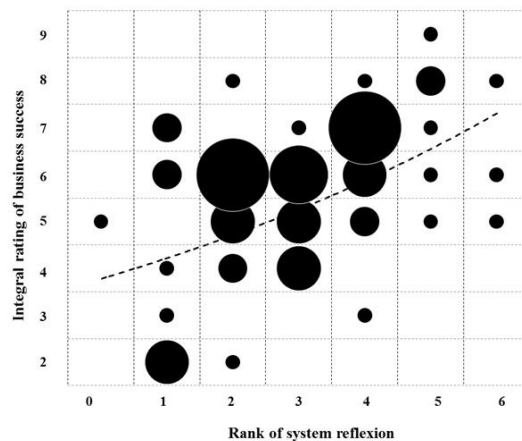
**Table 2. System Reflexive Marketing in relation to Reflexion Rank**

Years of occurrence	Theoretical foundation	Proactive approach to external environment	Role of internal marketing	Matching environment analysis to market globalization	Pricing policy	Brand management	Basic solutions of marketing strategy	Dominant technology of impacting the counter-agents	Enterprise function of marketing	Object to management	Marketing paradigm (fundamental theory)	System reflexion rank
1930s–1950s	Marginal utility theory /Theory of surplus value	Reactive policy	Absence of internal marketing	Maximum (local key market/local environment)	Cost-based pricing	Product strategy	-	Activation	Sales (absence of marketing function)	Disposal of goods	Sales	0
1950s–1960s	Rational choice theory / Behaviorism	Reactive policy	Limited role	Maximum (local key market/local environment)	Sales promotion (discount system)	Trade mark management	System of sales promotion	Stimulation	Sales promotion (in the business structure)	Customer relationships regarding the exchange	Relationship management	1
1960s–1970s	Game theory / Expected utility hypothesis (John von Neumann, Oskar Morgenstern, 1944)	Policy of limited proactiveness (in terms of management object)	Secondary role	Medium	Value-based pricing	Trade mark management	Trade marketing solution (merchandising, etc.)	Manipulation	Trade marketing (in the business structure)	Customer interests	Customer behavior management	2
1970s–1990s	Cognitive psychology (George Miller and others, 1956) Subjective expected utility theory (Leonard Savage, 1954)	Policy of limited proactiveness (in terms of management object)	Internal positioning of brands	Minimum (local key market/globalized environment)	Value-based pricing	Traditional brand management	Strategy of market penetration, positioning	Manipulation and confrontation (particularly "Marketing Wars")	Marketing (separate function)	Aggregate of relations and interests within sales and consumption channel	Classic marketing (Marketing Mix)	3
1980s–2000s	Systems theory (Ludwig von Bertalanffy, 1937)	Proactive policy	Integrated marketing (integration of functions around market objectives)	Minimum (local key market/globalized environment)	Pricing based on demand and rival strategies	Traditional brand management	Category policy	Alignment of interests	Marketing integrates into commercial function	Aggregate of relations and interests within creation, sales and consumption channel	Category management	4
1980s–2000s	Prospect theory (Daniel Kahneman, Amos Tversky, 1979)	Proactive policy	Corporate culture management	Medium	Pricing based on demand and rival strategies	Brand leadership	Growth strategy, competitive strategy	Partnership	Marketing determines business strategy	Aggregate of interests and market relations within market	Strategic marketing	5
1990s–till now	Reflexive management (Vladimir Lefebvre, 1972)	Policy of environment management	Orientation on key internal stakeholders	Maximum (globalized key market/globalized environment)	Market pricing	360° Brand Management	Shaping the vision of an enterprise	Reflexive management	Marketing serves as a management technology of business activity	Business activity	Strategic marketing management	6
2000s–till now	Concept of intellectual leadership (Gary Hamel and C. K. Prahalad, 1990) / Blue Ocean Strategy (W. Chan Kim, 2005)	Policy of environment management	Internal environment as part of the management object	Maximum (globalized key market/globalized environment)	Market pricing	Total brand management (strategy of dominating brands)	Defining the parameters of key market	System reflexive management	Marketing serves as a management technology	Market as a whole	System reflexive strategic marketing management	7

Every next rank of reflexion implies not only the expansion of knowledge system about stakeholders and forces that must be taken into consideration (in fact—expansion of management object), but also the scoop of knowledge about the stakeholders that have already been included in the management object. The same conclusion was reached by the authors of Spiral Dynamics theory.

We have carried out the research dedicated to "The model of strategic management of business and marketing activities", involving 54 various enterprises (from Russia, Ukraine and Belarus) with focus on the following subject matters: observation of technologies of market activity and managerial decision-making processes, in the course of 2–4 years (continually during 2007–2012); analysis of operating efficiency; analysis of brand success; expert surveys of senior and operational internal management, as well as external experts and partners; customer surveys; modeling and empirical studies (particularly, through the adoption of system reflexive strategic marketing management).

Correlation of success of business activity and the rank of manager's system reflexion—based on the results of our study—is illustrated in Figure 2. The diameter of the circle on the diagram corresponds to the share of enterprises being studied, with the specified parameters. Horizontal axis represents the rank of manager's system reflexion, while vertical—corresponds to integral rating of business activity success. Corresponding trend line was drawn to illustrate the growth of success in relation to the advance of manager's rank of reflexion.



**Figure 2 – Association of manager's rank of reflexion and success of an enterprise**

*Source:* author's research data.

To determine the association of these two parameters, Cramer's V coefficient was calculated ( $V=0.43$ ). This indicates medium association of success of business activity and the rank of system reflexion of the manager; and corresponds to one of the largest rating of association among the parameters studied.

Hence, system reflexive strategic marketing management outlines the following: (1) Subject of business activity is referred to as a manager (person); (2) The basis for making managerial decisions turns into system reflexion of a manager, where the highest rank enables the manager to gain the actual ownership of the management object; (3) The concept of marketing (meeting the personal interests of a manager by means of aligning and meeting the interests of other stakeholders of the management object) shall be regarded as the foundation of managerial activity; (4) Flexible form of activity arrangement (particularly, business activity) implies collaborative effort of group of subjects—stakeholders of the management object; (5) Expansion of the management object, covering counter-agents (i.e. subjects of confrontational management; partners involved) with regard to their interests, intentions and actions being considered and governed as well.

System reflexive management assumes: realization of personal interests by the manager; realization of personal interest towards the management object, definition of the object—respective to the interest of system reflexive manager; identification of counter-agents in terms of confrontational relationship, and interaction in the frame of management object; system management of counter-agents' behavior under reflexive position—by means of delegating the authority to make decisions.

It should be noted that System Reflexive Marketing not only consolidates the evolution stages of marketing development, but also enables the feasibility for different concepts to coexist in the frame of single object management. In such instance, the actual owner, or a manager of the management object, becomes the subject—possessive of the highest rank of system reflexion.

#### IV. CONCLUSION

The study integrates the concepts of marketing, strategic management, and reflexion, where the latter is examined not on the act/action level, but on the activity level (system reflexion) of the subject of management.

System Reflexive Marketing introduces the new marketing and strategic management paradigm, and consolidates its evolution stages of development. Adopting the System Reflexive Marketing enables the enterprise to resolve internal and external conflicts, elaborate strategic vision—together with corporate strategy, facilitates realization of interests by the subjects of management towards the management object, as well as improves the overall efficiency of business operation. In turn, this contributes to the advancement of entrepreneurship in the post-Soviet space and competitive recovery of domestic enterprises in the context of globalized market environment.

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