

**INDUCTIVE REASONING IN MARKETING RESEARCH TO RESPOND THE
FUTURE MARKET CHALLENGES**

Andhi Sukma

Universitas Widyatama

Harriman Saragih

Universitas Pelita Harapan

harriman.saragih@uph.edu

“An exciting and inspiring future awaits you beyond the noise in your mind, beyond the guilt, doubt, fear, shame, insecurity and heaviness of the past you carry around.” – Debbie Ford

Abstract

This paper aims to provide the definition of inductive reasoning and explain its importance in the field of business and management research to respond to the future market challenges. On this paper, we will first describe the basic understandings of two types of scientific reasoning concepts which are deductive and inductive, including the idea of positivism and interpretivism, as well as its relevance to natural and social sciences studies. Then, we will continue to explain that inductive reasoning, however, is rarely used in business and management research particularly in some of Indonesia's top higher education institutions. Furthermore, in order to show the importance of inductive reasoning, a case study of Starbucks and 7-Eleven in Indonesia will be presented with reflection to argument by Handy (1993). This paper will finally conclude by emphasizing the importance of inductive reasoning in business and management research and suggest future recommendations towards business and management research in Indonesia particularly on the higher education institutions.

Keywords: *inductive reasoning, future market challenges*

JEL Classification: *M31*



INTRODUCTION

There are basically two fundamental approaches in entailing a scientific conclusion which are known as deductive and inductive inferences. Okasha (2002) defined deductive reasoning as a process in which the premises entail the conclusion. However, inductive reasoning is defined as a process that begins with premises about objects that have been examined into conclusions about objects that have not been examined. Johnson (1996) provided some practical examples both in deductive and inductive reasoning. He provided deductive example as follows:

- P1 : All unmarried men are bachelors
- P2 : Joe is an unmarried man
- C : Therefore, Joe is a bachelor

The deductive reasoning mentioned above simply asserts that the given premises will entail the final conclusion. Whether the premises are true, it is of different issue and therefore does not reflect the status of the inference as deductive. Separately, Johnson (1996) mentioned that inductive reasoning is noticeably much richer and more complex. He asserted that inductive reasoning does not necessarily guarantee that the logical premises will finally form true conclusion. Take a look at the illustration given by Saunders and Lewis (2012):

- P1 : The first five eggs in the box were rotten
- P2 : All the eggs have the same best-before date stamped on them
- C : Therefore, the sixth egg will be rotten too

From the above illustration, the conclusion that is drawn from the set of logical premises seems plausible. Nonetheless, even though the first five eggs have been in such rotten conditions, it does not necessarily prove that the sixth egg will be rotten too; in fact, the sixth egg may possibly be in a perfect condition. Hence, by doing inductive reasoning, we can infer that even if the premises are true, the conclusion drawn may not be always true. Now, what is the relation between these scientific reasoning with the social and natural sciences? How is it linked with the philosophy of positivism and interpretivism?

Commonly, natural sciences use mainly the deductive approach – though it may begin with inductive observations – to look for causalities, in which the conclusion taken can be universally generalized. This is in line with the positivist philosophy which is highly



structured, measured – mostly quantitative – and mainly used in physical and natural sciences that can result in law-like generalizations (Saunders & Lewis, 2012). However, in social sciences, we cannot merely generalize and conclude human behavior as it indeed complex. Therefore, in studying social sciences, we argue that researchers shall be able to conduct the study based on interpretivism – commonly associated with inductive approach – rather than emphasizing on positivism approach, which is mostly associated with deductive testing. As a matter of fact, until the present time lecturers and researchers in some prominent universities in Indonesia – within the field of social sciences – has not yet appreciated and valued the importance of inductive reasoning (hypothesizing) in the business and management research, compared to studies with deductive (testing) method.

This paradigm is somehow supported by my personal observations and discussions carried out with several senior lecturers with more than 15 years of experiences in some higher education institutions in Indonesia. It is implied from the discussions that deductive approach is more common in business and management research compared to inductive method in these universities. Based on our study, many of the lecturers tend to assume that quantitative testing is easier to be understood than hypothesizing through qualitative studies. This widely spread understanding is in fact foolhardy.

To see why this is foolish, several supporting evidences will be presented. For example, inductive study from Handy (1993) that attempted to forecast the future of organizations have shown considerable impact in the way Starbucks has been operating lately (Schultz, 2011). A case study from Dieleman, Mahmood, and Darmawan (2015) regarding the inductive observation conducted in 7-Eleven Indonesia in the period of 2010 to 2013 will also be presented to support the argument.

Handy (1993) argued – by using inductive study – that there will be shifting in the way people look at organizations in the future. On this paper, we will focus on two paradigms stated by Handy. He wrote that the old paradigms, of which seeing organization as a property, and concentration plus specialization equals efficiency, will no more be relevant in the future. He also gave some sort of ‘clues’ to support his argument such as communication revolutions, ‘fees not wages’, ‘tools not machines’ and the economics of quality. Was his idea in 1993 relevant to the current management practices? In fact, as years passed by,



Handy's forecast is supported by Schultz (2011) as a CEO of Starbucks and Honoris as the CEO of 7-Eleven Indonesia (Dieleman et al., 2015).

In Schultz's book (2011) titled *Onward*, he simply explains that Starbucks – as an organization or business – does no longer sees its business some kind as a shareholders' property, but as a community which involves all stakeholders. These stakeholders involve the coffee bean farmers, baristas, customers, and their business partners. Schultz also clearly stated that Starbucks are at their best when they collaborate to provide a connection as well as a deep respect for the coffee and communities they serve (Koehn, McNamara, Khan, & Legris, 2014). Also on their website, currently Starbucks declares that they are living the value of “acting with courage ... to grow our company and each other” (Starbucks Corporation, 2016), which implies Starbucks' commitment to involve all stakeholders to grow together. Schultz continually listens to the customers, implemented generous employee benefits, and call their franchisees as ‘partners’. He also formed a Starbucks Open Forum for customers and employees of Starbucks to connect with each other.

In short, the above explanation has shown factual example of how Schultz as a CEO of Starbucks sees his organization. He does not rely mainly on the sole decision of shareholders to operate their business as a shareholders' property, but he has actively taken into account all stakeholders to contribute according their unique roles as a community to build common welfare in the society. Another sell-by-date paradigm which Handy argued is ‘concentration plus specialization equals efficiency’. This old paradigm declares that organizations must focus on the core capability and concentrate on specific product without having to take into account the idea of diversification towards markets' needs. The 7-Eleven case by Dieleman et al. (2015) will explain how this old paradigm may had been left behind and has shifted into a newer perspective.

Originally, 7-Eleven were first established as convenience stores in the United States in 1946 with original opening hours from 07:00 a.m. to 11.00 p.m. In Indonesia, 7-Eleven was first introduced in the 2009. The idea of convenience store at that particular time was just merely a small retail business that sells a variety of everyday items such as cigarettes, snacks, drinks, sweets, etc. Alfamart and Indomaret were recorded with the biggest shares in this particular industry with each 3.2 per cent and 3.1 per cent shares in 2013. Honoris, as the



CEO of 7-Eleven Indonesia at that time had some sort of difficulties in initiating his business since the local government of Jakarta had stopped issuing licenses for convenience stores as they feared that the traditional markets will be displaced. As an alternative, Honoris was told to focus on serving foods, tables, and chairs rather than regular concept of convenience store.

This challenge had become opportunity for Honoris as the CEO. Then, he tried to survey the customers to look for new insights and opportunities whether there are unfulfilled needs of the prospective target market. What he found based on his inductive market research was the lifestyle of ‘nongkrong’ among its potential target market. This ‘nongkrong’ can be loosely translated as a group of youth hanging outs to talk, use their phone, drink and eat (Dieleman et al., 2015). According to his findings, rather than concentrating and specializing on the regular concept of convenience store, he attempted to diversify the concept of an ordinary convenience store – that only sells daily items – to a store which combine convenience with free Wi-Fi, tables, chairs, and fresh foods to facilitate its target market’s unfulfilled behavior of ‘nongkrong’.

Joe Biedenharn as the business development manager of 7-Eleven Indonesia mentioned that compared to the average time of 7-Eleven customers spent in the United States – which maybe around 30 seconds – in Indonesia it can be almost one to two hours for a customer spent at a store. In addition to this, 7-Eleven Indonesia also developed what they called a central-kitchen that provided 60 to 70 per cent fresh food to their stores in Jakarta. Also, they introduce a new digital kiosk which enabled customers to purchase travel or entertainment tickets, taxi-calling service in partnership with Blue Bird, and even life and medical insurances. Within the period of 2010 to 2014, the sales of 7-Eleven Indonesia continued to increase with their distinctive strategies (Dieleman et al., 2015).

The above insights from Starbucks and 7-Eleven Indonesia have actually provided actual evidences that supported Handy’s inductive hypotheses (1993) regarding some of the sell-by-date paradigms in the way people see organizations. First, Starbucks have shown the management practices, in which Schultz applied, that organization is no longer seen as a property but a community of all stakeholders towards achieving common welfare. Secondly, 7-Eleven Indonesia case have provided contextual understanding of how the old paradigm – concentration plus specialization equals efficiency – does not apply in Indonesian market



environment. Nonetheless, 7-Eleven constantly adapt and diversify its business to fulfill its target market needs. Honoris also have shown his experience of how his inductive market research, surveyed towards the potential target market, can support his business to strive in the challenging times.

Based on the above explanations, it can be concluded that inductive reasoning can be defined as a research approach which involves the development of theory from a set of data or observations that were collected beforehand. Inductive reasoning is therefore highly important for business and management practices, particularly in marketing, as shown by two practical examples by Starbucks and 7-Eleven Indonesia delivered on previous paragraphs. Inductive reasoning can help businesses to gain new insights and opportunities both for the present time and in the future. Inductive reasoning can contribute to open new understandings, trends, and hypotheses in the business environment, compared to deductive approach which limits researchers to test only a set of given hypotheses.

The article of Evolving to a new dominant logic for marketing by Vargo and Lusch (2004), for instance, which has been cited for over 10.000 times is clearly an inductive study which attempted to gather and collect relevant and key information from the previous theories to make people aware regarding the outdated goods-dominant paradigm in the marketing studies. Their theoretically sound and grounded argument published in 2004 has in fact made scholars continue to discuss this service dominant logic until the present era.

Thus, it is recommended that higher education institutions in Indonesia need to shift their old paradigm by favoring and utilizing primarily more on deductive studies, compared to inductive studies which is arguably less popular in business and management research, that can actually help businesses to strive and respond in the future times. The old paradigm that relies heavily on deductive studies and statistical calculations in marketing studies must also be balanced with scholars who are able to analyze and build well-grounded arguments regarding the potential market changes and shifts in the future.



ACKNOWLEDGEMENT

The authors would like to extend sincerest gratitude towards Universitas Widyatama, Universitas Pelita Harapan and Professor Conrad William Watson for the support in the article creation process.

REFERENCES

- Dieleman, M., Mahmood, I. P., & Darmawan, P. (2015). 7-Eleven Indonesia: Innovating in Emerging Markets. Retrieved from Harvard Business School Publishing
- Ford, D. (1998). *The Dark Side of the Light Chaser: Reclaiming Your Power, Creativity, Brilliance, and Dreams*: New York: Riverhead Books.
- Handy, C. (1993). *Understanding organizations*: Penguin Uk.
- Johnson, C. F. (1996). Deductive versus inductive reasoning: A closer look at economics. *The Social Science Journal*, 33(3), 287-299. doi:[http://dx.doi.org/10.1016/S0362-3319\(96\)90024-5](http://dx.doi.org/10.1016/S0362-3319(96)90024-5)
- Koehn, N. F., McNamara, K., Khan, N., & Legris, E. (2014). Starbucks Coffee Company: Transformation and Renewal. Retrieved from <https://cb.hbsp.harvard.edu/cbmp/content/sample/314068-PDF-ENG>
- Okasha, S. (2002). *Philosophy of science: A very short introduction (Vol. 67)*: Oxford Paperbacks.
- Saunders, M. N., & Lewis, P. (2012). *Doing research in business and management: An essential guide to planning your project*: Pearson Higher Ed.
- Schultz, H. (2011). *Onward: How Starbucks fought for its life without losing its soul*: Rodale.
- Starbucks Corporation. (2016). *Our Starbucks Mission Statement*. Retrieved from <http://www.starbucks.com/about-us/company-information/mission-statement>. Retrieved from <http://www.starbucks.com/about-us/company-information/mission-statement>
- Vargo, S. L., & Lusch, R. F. (2004). Evolving to a new dominant logic for marketing. *Journal of marketing*, 68(1), 1-17.

