
Ethical and Legal Foundations of Relational Marketing Exchanges

Author(s): Gregory T. Gundlach and Patrick E. Murphy

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Ethical and Legal Foundations of Relational Marketing Exchanges

Previous study of exchange by marketing scholars has emphasized events and conditions leading to and the outcomes of exchange interaction. However, limited attention has been directed toward the role of ethics and law in exchange. The emerging perspective of relational exchange suggests the importance of these foundations. The authors examine the interrelationship of contract law and ethics for building and sustaining marketing exchanges. They explore dimensions of ethical exchange and offer managerial and research implications.

A recent theme in marketing distinguishes short-term, discrete exchange transactions from exchange involving long-term repetitive interaction with a relational emphasis (i.e., open-ended supplier contracts, franchisor-franchisee arrangements, strategic partnering, and joint ventures). Relational exchanges can facilitate heightened customer satisfaction, lower costs through transaction routinization, and raise barriers to competitive market entry. Examples of this trend are common today:

- Motorola plans to cut substantially the number of outside law firms it retains. In an attempt to obtain higher quality legal services at a lower cost, the company intends to establish and build relationships with only a few primary legal service providers (Pollock 1991).
- Toyota, a leader in production efficiency, is teaming with small American suppliers in an effort to enhance these firms' productivity. Rather than taking their business elsewhere, Toyota is cultivating relationships with the suppliers and teaching them their production know-how. Toyota's commitment to these firms has led to design advances and quality improvements (White 1991).
- American Express is changing from a focus on product marketing to relationship marketing. The firm plans on emphasizing consumer needs to increase loyalty and usage for its green, gold, and platinum cards. Adopting a relationship management model, according to Phillip Riese, AmEx executive vice president, "is the way the customer battle will be won in the 1990s" (McCormack 1992).

Beginning with Adler's (1966) conception of symbiotic marketing, scholars have explored the trend toward relational exchange in marketing (Varadarajan and Rajaratnam 1986). In early work on personal selling, Goodman (1971) emphasized the importance of sustaining relationships with customers. Arndt (1979) later noted the tendency of some exchanges to be circumscribed by long-term associations, la-

beling this phenomenon "domesticated markets." More recently, Dwyer, Schurr, and Oh (1987) extended this concept to include consumer transactions in which key distinctions occur across phases in the development of buyer-seller exchange relationships. In the context of service exchanges, both Lovelock (1983) and Crosby, Evans, and Cowles (1990) highlight the importance of relationship management. Internationally, the Industrial Marketing and Purchasing Group provides a rich characterization of the elements in buyer/seller interactions that foster relational bonds (Hakansson 1982).

For many business exchanges, emphasis on relational exchange has brought about greater communication, coordination, and planning between partners (Frazier, Spekman, and O'Neal 1988; Jackson 1985; Salmond and Spekman 1986; Spekman and Johnston 1986). Within consumer exchanges, marketing strategies such as those utilized by book and record clubs and frequent flyer programs illustrate the benefits of procuring long-term relationships. In the service sector, relationship-building approaches are employed by lawyers, bankers, and physicians, as well as nonprofit organizations. Together, these examples suggest the importance of exchange relationship development and its foundations.

Various legal theories, including contract law, facilitate the process of exchange development. A system of law and enforcement enables parties to plan, negotiate, and consummate their exchanges. Reliance on the law, however, can be costly in terms of both resources and time and may potentially erode buyer-seller interdependence. Empirical evidence indicates that relational exchange participants rely more often on extra-legal governance to maintain their relationships and resolve disputes (Beale and Dugdale 1975; Macaulay 1963). Non-legal alternatives are especially notable in Asian cultures. According to NEC Corporation legal chief Satoshi Nakaichi (Galen, Cunes, and Greising 1992),

when disputes arise ... attorneys often are the last to get involved. Salesmen and front-line managers are the chief problem-solvers. In part, that's to avoid spoiling a long-term relationship.... [T]he idea is to coexist and win that money back on future deals.

The Japanese *Keiretsu* exemplifies this alternative model of exchange with its admonishment of confrontation as a solution to legal dispute resolution.

Gregory T. Gundlach is Assistant Professor and Patrick E. Murphy is Professor, Department of Marketing, College of Business Administration, University of Notre Dame. The authors extend their appreciation to Bob Dwyer, Jule Gassenheimer, Pat Kaufmann, Gene Lacznik, Donald Robin, Joshua Wiener, members of the Department of Marketing at the University of Notre Dame, three anonymous *JM* reviewers, and the editor for their helpful comments.

TABLE 1
Continuum of Exchange

Exchange Elements	Forms of Exchange ¹		
	Transactional	Contractual	Relational
Temporal Dimensions			
Time horizon	Short	Intermediate to extended	Extended
Nature of transactions	Short duration; transaction has distinct beginning and end	Longer duration; transactions linked together	Longest duration; transactions merged together
Situational/Strategic Characteristics			
Investment	Small	Moderate	Large
Switching costs	Low	Medium	High
Purpose of exchange	Narrow; economic; substance of exchange	Moderate; economic and social elements; creation of longer-term initiatives	Broad; economic and social elements; creation of longer-term initiatives
Strategic emphasis	Low	Moderate	High
Outcomes			
Complexity	Simple offer—acceptance	Increasing complexity	Complex web of operational and social interdependence
Division of benefits and burdens	Distinct, sharp division	Trade-offs and compromise	Blurring as goals converge

¹ Adapted from Dwyer, Schurr, and Oh (1987) and Jackson (1985).

Mechanisms of extra-legal governance encompass standards of conduct, including the personal and organizational ethics that each party brings to the exchange. Both can be distinguished from group norms or standards that emanate from the relationship itself. Ethics is the branch of moral philosophy that deals with moral judgments, standards, and rules of conduct. Focus on ethics in exchange has received limited emphasis in marketing: influencing the value received (Bagozzi 1975), potency (Alderson 1957), and utility created (Houston and Gassenheimer 1987).

Our goal is to examine ethics and law as mechanisms for guiding exchange. We initially discuss the perspectives of exchange as a discrete event versus exchange involving long-term interaction. Our attention then turns to the legal and ethical foundations of exchange and the exploration of their interrelationship for governing exchange. Finally, we propose several dimensions of ethical conduct and offer implications for managers and researchers.

Exchange Events to Exchange Relationships

Various marketing scholars have characterized the operational forms of exchange as a continuum anchored by the polar archetypes of discrete and relational exchange. Incorporating work by Williamson (1985), Macneil (1978, 1980) and others (Stinchcombe 1985), Dwyer, Schurr, and Oh (1987) propose that transitions to long-term relationships evolve through five phases: (1) awareness, (2) exploration, (3) expansion, (4) commitment, and (5) dissolution. Jackson (1985) suggests a similar continuum for industrial marketers in her normative discussion of transactional versus relationship marketing. These authors distinguish various exchange elements, including their temporal nature, situational and strategic characteristics, and outcomes.

Polar Archetypes of Exchange

Table 1 summarizes these elements along a continuum. A key element regarding the polar exchange forms is the time horizon or duration of the exchange relationship. At its extreme, *transactional* exchange involves single, short-term exchange events encompassing a distinct beginning and ending. Goldberg (1976, p. 49) describes this form as a transaction in which “no duties exist between the parties prior to formation [of the exchange], and in which the duties of the parties are determined completely” up-front. Obtaining emergency medical treatment away from home or stopping at an off-brand gas station when traveling illustrate consumer exchange transactions, whereas true spot markets are examples of organizational exchange transactions.

In contrast, *relational* exchange involves transactions linked together over an extended time frame. These exchanges trace back to previous interactions and reflect an ongoing process. The close, long-term relationships established between certain vendors and their industrial customers, such as those between some automobile manufacturers and their suppliers (e.g., Ford Motor Company and A. O. Smith), exemplify this exchange form. Relationship banking, frequent-stay programs at hotels, and priority acceptance for alumni family members at universities are examples of relational exchanges directed toward consumers.

Within relational exchange, emphasis is placed on purposeful cooperation. Extended planning and the establishment of complex webs of operational and social interdependence occur. Turnbull and Wilson (1989) suggest “structural” and “social” bonding can create substantial barriers to competition. Similar results can happen when strong interpersonal relationships develop between many service providers/professionals and their clients.

TABLE 2
Examples of Contractual Exchanges

Transactional Exchange	Contractual Exchange	Relational Exchange	
—True Contractual Exchange— —Interorganizational/Interparty Systems— —Transorganizational/Transparty Systems— —Joint Ventures—			
		Examples	
Contractual Exchange	Description	Business Exchange	Consumer Exchange
True Contractual Exchanges¹			
Executory bilateral contract	Simple contractual exchange involving a future act or obligation.	Simple vendor contract	Purchase of a home
Sequential contingent contract	A series of contracts linked serially and conditional on one another.	Contractor/subcontractor relationships	Yearly lawn care services; maid or housekeeping services
Open-ended contract	A contract in which certain terms (e.g., order amount, price, terms of trade) are deliberately left open to be agreed on at a later date.	Open-ended supplier and vendor contracts	Adjustable rate financing contracts for mortgages and credit cards
Interorganizational/Interparty Systems²			
	Interfirm/party exchange relationship involving traditional (e.g., purchasing, sales, vendors, etc.) boundary spanning linkages and coordination.	Licensing arrangements for trademarks and/or patents; traditional channel relationships; franchisor/franchisee contracts	Consumer financial planners or accountants; legal service and their providers consumer clients
Transorganizational/Transparty Systems²			
	Interfirm/party coalition composed of a system of interpartner roles and responsibilities organized interfunctionally (e.g., research and development, marketing, production, etc.) and supported by a network of coordination, liaison, and decision-making linkages (Achrol, Scheer, and Stern 1992).	Strategic partnering for research and development, marketing, production and other functional areas	Nursing home care; military and boarding schools; child care services
Joint Ventures			
	Interfirm/party creation of an autonomous entity, usually organized by function, with or without equity positions by the partners in the entity.	Non-equity arrangements involving research and development, production and marketing; equity sharing arrangements; satellite organizations	Consumer buying cooperatives

¹Adapted from Goetz and Scott (1981)

²Terms denote organizational and consumer exchanges

Contractual Exchange

Table 2 depicts examples of contractual or intermediate exchange forms. The types fall on a continuum with subcategories of true contractual exchanges, which are nearest the transactional end, and joint ventures, which approach the relational archetype. Interorganizational/interparty and transorganizational/transparty systems of exchange are positioned between these forms. Each is arranged to represent its perceived relative location along the continuum with some latitude of placement.¹ Recognition of these intermediate exchanges supplements perspectives that emphasize the largely hypothetical archetypes.

¹Dwyer, Schurr, and Oh (1987) call for the development of a framework that specifies the differing organizational exchange forms along the continuum from discrete to relational exchange. A variety of authors have discussed exchange in terms of a continuum (Achrol, Scheer, and Stern 1992; Borys and Jemison 1989; Thorelli 1986). Their discussions parallel and are consistent with the array presented in Table 2.

Legal Foundations of Exchange

For the development of exchange relationships, each party must possess some expectation of its partner's intentions and performance. Without assurance of future conduct, one party's provision of value for the promise of future delivered value by the other likely will not occur. For any exchange, the level of assurance may be assessed directly by contemplating the expected value to be received or indirectly by referring to some facilitating governance mechanism. According to Houston and Gassenheimer (1987, p. 9):

Party A may believe future receipt is unlikely but the gain received today compensates for value deferred to the future...[or] because of past experience or legal or moral strictures, he or she [A] is willing to defer more value into the future.

Most of marketing management emphasizes strategies di-

rected at promoting the evolution of buyer-seller exchange toward the relational archetype (Dwyer, Schurr, and Oh 1987). Indeed, the general premise underlying the marketing concept (i.e., fulfilling customer needs) promotes the development of exchange relationships and future interaction.

Contract Law and Exchange Relationships

Contract law applies to the legal rights of exchange parties and guides the planning and conduct of exchange. Largely composed of classic contract doctrine embodied in common law (i.e., case law), it also embraces new legislative enactments bearing on exchange relationships. The latter foundation represents “modern” legal contract and can be found across corporate, insurance, partnership, and commercial law (i.e., Uniform Commercial Code [UCC]).²

The classic case law of contract views exchange as composed of single, independent, and static transactions. Precise rules dictate the steps—“offer,” “acceptance,” and “performance”—reflecting the perceived one-time nature of a singular transaction. Prior dealings are of little consequence in the interpretation of exchange with events not contemplated originally by the parties excluded. These elements mirror the transactional form of exchange (Table 1).

The shortcomings of classic contract law for the facilitation of relational exchange has led researchers to question its contemporary relevance. Macaulay’s (1963) early examination of exchange relationships contends that reliance on legalistic strategies lessens the chance of future interaction. He concludes that business people prefer to rely on “a handshake, or common honesty and decency”—even when the transaction is risky (p. 58). Recent studies support Macaulay’s findings in the automotive (Frazier and Summers 1984; Whitford 1968) and rail freight industries (Palay 1985) and within supplier exchanges involving complex goods (Beale and Dugdale 1975). The theoretical inconsistency of contract law as a basis for these exchanges has also been noted (Gilmore 1974; Macneil 1980, 1985; Williamson 1991). For one-time transactions (e.g., spot market exchanges and some real estate transactions), classic contract doctrine provides an efficient system of governance. Many long-term exchanges, however, have been likened to marriages or partnerships between buyers and sellers. In these associations, parties often avoid reference to formal contractual rights as a basis for gaining compliance and cooperation.

Exchange and Modern Contract Law

Modern interpretations of contract law, contained within the UCC and other areas of law (e.g., corporate, partnership, etc.), illustrate the law’s attempt to deal with the dynamic intercourse of intermediate- and extended-term exchanges. Several adaptations for these exchanges are identified subsequently—i.e., exchange planning and contract formation, adjustments to existing contracts, and resolution of contractual conflicts.

²The common law of contract refers to that found in the *Restatement of Contracts* (1932). This treatise is considered to represent traditional concepts of legal contract prevalent during the early 1900s. A more modern interpretation of contract law is found in the *Second Restatement of Contracts* (1981) and the Uniform Commercial Code (1978). These documents reflect concepts of contract law that are currently accepted.

Exchange planning and contract formation. A legal prerequisite to contract formation is an agreement or mutual manifestation of assent (*Cessna Financial Corporation v. Mesilla Valley Flying Service* 1970). Planning for every material term prior to an exchange is difficult, however, because future events may be unknown. Often parties wish to rely on custom, prior dealings, or third parties. Under common law, indefinite contracts are void (Calamari and Perillo 1987). Modern contract law is flexible in its interpretation of assent. Under “gap filler” provisions of the UCC (1978), exchange is allowed when parties reach an agreement, but have not worked out the necessary details:

Terms not specified by exchange partners may be agreed to and incorporated into their contract even after the contract has been formed (Section 2-204(3)).

A contract may be concluded even though the price, place of delivery, time of performance or other particulars have not been settled (Section 2-305 through 2-311).

Adjustments to existing contract relationships. Adjustments may be required if one party fails to perform, both parties wish to amend their relationship, or unilateral action necessitates alteration of the original agreement (Macneil 1978). The “doctrine of impossibility” addresses those circumstances in which parties cannot carry out their obligations because of extreme impracticability (e.g., *Portland Section of Council of Jewish Women v. Sisters of Charity* 1983). The common law rule was “Pacta Sunt Servada”—promises must be kept even if impossible to perform (Sharp 1941). More recent interpretation of this doctrine under the UCC covers unforeseen outcomes:

Delay or non-delivery is not considered a breach when the agreed upon carrier becomes unavailable and a substitute carrier is used (Section 2-614).

When the contemplated form of payment is impossible, substantially equivalent means of payment is allowed (e.g., countertrade or foreign currency) (Section 2-615).

The “doctrine of mistake” is another method by which parties can amend their obligations (Foulke 1911). Increasingly, this doctrine indicates that the contract can be amended when enforcement would result in an inequitable exchange and little hardship would be imposed through rescission (*Da Silva v. Musso* 1981). Some restrictions apply (e.g., unilateral mistakes); however, allowing parties to correct errors promotes fairness and continued interaction.

Resolution of contractual conflict. Under the classic common law “perfect tender rule,” buyers could reject goods unless delivery conformed in every respect to the contract (Calamari and Perillo 1987). Modern contract law encourages parties to amicably resolve their differences. The UCC interpretation of this rule attempts to sustain exchange relationships in spite of conflict (White and Summers 1988):

If a buyer rejects goods delivered in a manner not in accordance with the original agreement, the seller has the right to make a conforming delivery before the contract time expires (Section 2-508(1)).

Where a buyer fails to perform a purchase obligation, the seller may identify the goods involved in the contract and resell them at a private or public sale (Section 2-704).

Development of Morality-Based Legal Doctrines

For many contractual exchanges, changes found in modern contract law are sufficient to govern conduct and ensure proper performance. However, greater complexities of exchanges closer to the relational archetype suggest a need for guiding mechanisms beyond contract law. Legal scholars have long acknowledged the importance and role of ethical principles for complex exchange relationships (cf. Gottlieb 1983; Macaulay 1963; Macneil 1983, 1986; Shell 1991b). Ethics provide guidance for exchange behavior while affording the flexibility necessary for sustaining relational exchanges. Modern contract law specifically embraces the moral basis of exchange through a variety of doctrines:

- *Doctrine of unconscionability.* Courts can refuse to enforce contracts “so unfair that no honest person would accept” (*Earl of Chesterfield v. Janssen* 1790, at 100). Though not explicitly defined under the UCC, unconscionability is recognized to embrace tenets of fairness, equity, and good faith (Burton 1980).
- *Promissory estoppel.* Reflecting contract law’s advancement of moral and ethical ideals, this principle states that a promise made between exchange parties with the expectation of furthering economic interests should be enforced without regard to the stringent formalities of traditional contract law (Shell 1988). This doctrine is “an attempt by the courts to keep (contract) remedies abreast of increased moral consciousness of honesty and fair representation in all business dealings” (*Peoples National Bank of Little Rock v. Linebarger Construction Co.* 1951, 16).
- *Fiduciary standards.* Underlying many commercial exchange relationships (i.e., franchisor-franchisee or agency-client), fiduciary standards require full disclosure and fair treatment regardless of self-interest (Kronman 1978). According to one commentator, the term *fiduciary* reflects an ideal “stricter than the morals of the marketplace” (Shell 1988).

Good faith in contract. The obligation of “good faith” provides a particularly relevant example of the law’s embrace of ethical precepts. Courts may impose “implied” duties of good faith both in the negotiation (*Channel Hose Centers, Grace Retail v. Grossman* 1986) and performance (*Empire Gas Corp. v. American Bakeries Co.* 1988) of contractual exchanges. In *Jordan v. Duff and Phelps, Inc.* (1987, p. 438) the court notes:

One term implied in every written contract and therefore, we suppose every unwritten one, is that neither party will try to take opportunistic advantage of the other.

The duty of good faith has also been extended to certain exchange relationships, (e.g., joint venture partners recognizing fiduciary obligations, *Arnott v. American Oil Co.* 1979). Under the UCC (1978), “[E]very contract or duty within this Act imposes an obligation of good faith in its performance or enforcement” (Section 1-203) and “honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade” (Section 1-201).

Good faith is defined in contract as “fairness” and “fair dealing” (Hillman 1979; Holmes 1978, 1980), “decency” (Farnsworth 1963), and “common ethical sense” (Unger 1976). Reiter (1983, pp. 106–7) describes good faith as “standards of appropriate behavior relevant in the community....[T]he ‘appropriate’ range will include the ‘very best’ behavior, but will also incorporate less virtuous

conduct.” The development of various doctrines within contract law that embrace ethical principles underscores the importance of ethics in providing a foundation for exchange development.

Ethical Foundations of Exchange

Ethics involves perceptions regarding right or wrong. It requires an individual to behave according to the rules of moral philosophy. In marketing, several scholars (Ferrell and Gresham 1985; Ferrell, Gresham, and Fraedrich 1989; Hunt and Vitell 1986; Robin and Reidenbach 1987; Williams and Murphy 1990) have applied ethical theories including utilitarianism, deontology, and virtue ethics to marketing decision making. Though ethics in the philosophical sense is individually oriented, these authors have adopted the perspective that decision makers operate within a marketing organization and its corporate culture. Various observers outside marketing have also examined the moral basis of exchange. Their common theme suggests that much of the law addressing exchange is drawn from and formalizes moral principles.

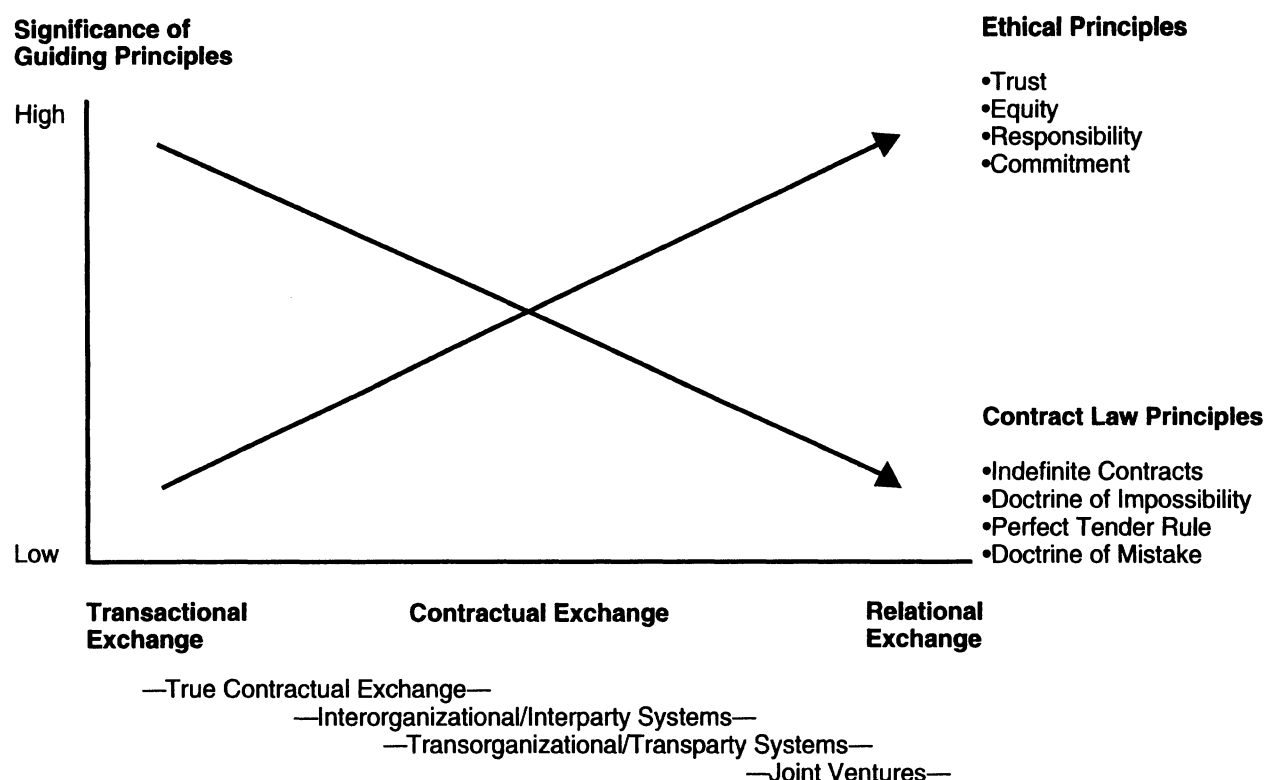
Equality in Exchange

The evolution of exchange can be traced from the Greek and Roman traditions to modern European and American interpretations (Gordley 1981). Most of the early writing on contract law evolved from the thinking of Aristotle, who believed that exchange requires equality as a matter of commutative justice so that neither party is enriched at the other’s expense. Aristotle’s (Irwin 1985, Book V, 1133b17) notion of exchange, originally expressed in *Nichomachean Ethics*, was: “for there would be no association without exchange, no exchange without equality, no equality without commensurability.” Though Aristotle was discussing personal exchanges in pursuit of a virtuous life, these notions seem particularly appropriate, given their implied emphasis on equality, for the development, adjustment, and resolution of conflict in marketing exchanges. Contemporary analysis of fair or just exchanges postulates that parties to a fair exchange are equal in terms of need (Cordero 1988). Participants may not be equal in wealth, intelligence, experience, or moral goodness, but if they are equally interested in obtaining something the other has, mutually advantageous exchange will occur. Furthermore, a recent essay on this topic (Koehn 1992, p. 341) argues that “the practice of exchange properly understood reveals itself to be inherently, ethically good.”

The Promise Principle

Legal scholars (Atiyah 1981, Fried 1981) have undertaken an in-depth examination of ethics’ relationship to law in the exchange context. They view exchange from the Kantian perspective, which interprets contract law as promise based. This “promise principle” provides the moral basis for contract law. Individuals can voluntarily impose obligations on themselves under which they can choose to join together for mutual advantage. Trust is one tool through which people can cooperate with others to actively serve one another’s purposes, and promising is thought to be the best vehicle for generating trust (Harris 1983). Both contract and exchange are rooted in promise keeping (Fried 1981). There-

FIGURE 1
Interrelationship of Contract Law and Ethics Across Exchange Forms



fore, parties planning an exchange seem to rely more on promises made to each other than legal principles in forming their relationship with adjustments or conflict handled similarly.

Promises should be binding per se to better understand the underlying law of contracts (Atiyah 1981). Promissory obligations are a refutation of utilitarian philosophical thinking (greatest good for greatest number) because individuals would not break a promise to create greater happiness. The obligation to “keep a promise” is a classic example of a duty emanating from principle-based ethical theory. The promise principle rejects the classical model of contract as not reflecting contemporary law or legal values. Following this approach, marketers would be morally obligated to deliver on their promises whether or not they were legally binding.

Morality of Duty and Aspiration

Fuller (1969) proposed a dichotomy of moralities, arising out of exchange. The morality of duty, characterized by “thou shalt nots,” specifies minimum standards of conduct. Grounded in the Ten Commandments, it condemns people for failing to respect the basic moral rules governing individuals and societies. Under the morality of duty, penalties take precedence over rewards. Its application places a negative burden on exchange parties to follow the rules and to not do harm knowingly to one another (Drucker 1974).

The morality of aspiration is characterized by “thou shalt” —exhortations to realize one’s fullest potential— and exemplifies the Greek philosophy of Aristotle and

Plato (Fuller 1969). Its orientation reflects the top of human achievement, in which proper conduct and functioning at one’s best exists. It represents the fullest realization of the good life. Rewards and praise, not punishment and disapproval (i.e., morality of duty), play a central role. For exchange, application of the morality of aspiration would include recognition awards for suppliers who meet planned goals, forgiving errors made by an exchange partner, and the amicable resolution of conflict.

The Interrelationship of Law and Ethics in Exchange

Figure 1 depicts a conceptualization of the relative significance of ethical and contract law principles for guiding relationships across the continuum of exchange. The horizontal axis contains our three delineated exchange forms—transactional, contractual, and relational (Table 2). The vertical axis shows the *significance* of contract law and ethics as one moves from left to right on this continuum. The arrows illustrate the increasing impact and importance of ethics and the declining significance of contract law as one moves toward relational exchange.

Guiding Principles Across the Continuum of Exchange

Transactional exchange. Because this exchange involves short-term and infrequent interaction, principles guiding it are predominantly legal. Classic contract law is supportive

of these exchanges. The simultaneous transfer of goods within transactional exchanges mirrors contract law's view of exchange. Formal terms of the contract supersede less formal ones, and precise rules of construction guide the transaction. We do not imply that ethics are unimportant, but they are less significant than in other forms of exchange (cf. Baumol and Blackman 1991). This fact stems from their simple and direct nature. Transactional exchanges are readily subsumed in contract law's "offer," "acceptance," and "performance" criteria. If parties forthrightly discharge their duties, they have met the necessary prerequisites for completing the exchange. In fact, deviation from these steps or cultivation of the exchange beyond its transactional nature may not be desirable to the parties involved. From an ethical perspective, each party should follow Fuller's (1969) morality of duty and Drucker's (1974) responsibility to "not knowingly do harm." Though transactional exchanges can sometimes be characterized by relatively high prices because of their spot nature, the exchange is ethical if it is straightforward.

Contractual exchange. Both legal and ethical principles play a significant role in contractual exchange (Figure 1). Though the contract between the exchange parties spells out legal conditions, more than just a binding legal agreement is present. For reasons cited previously, many aspects of these exchanges are not reducible to contractual terms. Moreover, strict reliance on the contract itself for enforcement may impact negatively other aspects of these exchanges. Exchanges identified in Table 2 involve obligations with complex duties. In this sense, doctrines found in contemporary contract law support contractual exchange. Modern contract law is somewhat flexible in its interpretation of exchange relationships, as illustrated by its adaptations for contract planning and formation, adjustments to existing contracts, and resolution of contracts. For this form of exchange to work efficiently, however, more than just principles of modern contract law are required. Ethical precepts, such as trust, appear especially important for guiding these relationships through areas not addressed in the formal contract. Evidence of this position is found in contract law's embrace of ethical principles and morality-based doctrines cited previously (e.g., good faith, unconscionability, etc.).

Relational exchange. The significance of ethical principles for exchange conduct occurs most prominently in relational exchanges. Their long-term, complex nature requires administrative mechanisms not found in contract law. Though a contract may exist, these relationships endure for reasons beyond reliance on the law. For these exchanges to work and merit continuance, exchange parties must rely on principles that address all aspects of the exchange relationship. Such a mode must also be resilient to change and evolution of the exchange association. Contract law, even its most contemporary legacy, fails these criteria. Following ethical principles allows administration of exchange relationships in ways that depend on mutual respect and honor for one another's word. The moral foundations of exchange transcend differing circumstances, parties, and occasions. Perhaps more so than contract law, tenets of moral philosophy are known and understood. In addition, these basic principles do not change as do interpretations of contract law.

Ethical principles called for in relational exchanges closely approximate Fuller's (1969) "moralities of aspiration." That is, partners must work together to achieve their mutual goals and conduct themselves in an ethical manner. The spirit rather than the letter of the law should serve to guide the relationship. Only in this way can the benefits of these exchanges be obtained by both parties and their association endure. Literature in industrial and consumer marketing indicates that more emphasis is currently being placed on collaboration and cooperation rather than hard-nosed negotiation in buyer-seller interactions (Dion and Banting 1988; Kapron 1991; Perdue, Day, and Michaels 1986). Brought about by maturing markets, escalating costs of attracting new customers, rising global competition, and more complex exchanges, many firms are placing a premium on building strong, durable relationships with their customers. The growing use of single sourcing, companies and suppliers working closely together to achieve global competitiveness, and consumer and business marketers' embrace of relationship marketing are trends that seem to suggest an increasing emphasis on highly ethical relationships. Focusing on these exchanges in the future mandates concern for incorporation of morally based principles by exchange partners.

Dimensions of Ethical Exchange

The limiting role of contract law suggests the importance of ethics as a foundation for exchange development. The adoption of morality-based doctrines in contract law indicates that ethical precepts are increasingly central for consummating exchanges. Trust, equity, responsibility, and commitment are required for fair and open exchanges to occur.

Trust

The variable most universally accepted as a basis for any human interaction or exchange is trust—a faith or confidence that the other party will fulfill obligations set forth in an exchange. Trust means taking another's word as fact and reducing the likelihood that the other party will act opportunistically (Bradach and Eccles 1989). Zaltman and Moorman (1988) define trust as a three-stage process: an interpersonal or interorganizational state that reflects the extent to which the parties can predict one another's behavior; a dependence on one another when it counts; and a faith that the other will continue to act in a responsive manner despite an uncertain future (p. 17).

Trust is a salient factor in influencing interpersonal, group, and organizational dynamics (Gambetta 1988; Golembiewski and McConkie 1975). As part of a self-heightening cycle (i.e., trusting behavior begets trusting behavior), trust influences a range of relevant exchange variables: communication and feedback, problem solving, effective delegation, and the acceptance of common goals and sharing of responsibility. Mutual trust can assist parties with conflicting interests and is a prerequisite for coordination and collaboration leading to relational exchange (Pruitt 1981). Schurr and Ozanne (1985) conclude that high trust causes more favorable attitudes regarding loyalty than low trust. Trust is influenced by experience and attributions of trustworthiness (Swan and Nolan 1985; Swan, Trawick, and Silva 1985). Furthermore, personal attributes (dependable, honest/can-

did, competent, customer orientation, and likable/friendly) contribute to feelings of trust. The importance of bilateral trust in developing and maintaining relationships has been affirmed (Moorman, Zaltman, and Deshpande 1992; Zaltman and Moorman 1988). Trust's pervasive nature suggests its importance as an essential foundation for creating relational exchange.

Equity

A second critical dimension for building relational exchange is equity. The notion of equity or fairness is widely recognized as essential for mutually satisfying exchanges and is tied to the concept of distributive justice (Cook and Messick 1983; Jasso 1980; Messick and Sentis 1979). Perceived equity is dependent on an individual's assessment of the value and relevance of participants' inputs and outcomes (Walster, Walster, and Berscheid 1973). Equity leads to forthright negotiations concerning exchange details and the development of conditions enhancing the establishment of relational exchanges. It tends to be the guiding principle when economic productivity is a goal of a cooperative venture (Deutsch 1975). Fairness dominates satisfaction judgments in exchange whereas future intentions are primarily a function of prior perceptions (Oliver and Swan 1989). Lack of equity can stimulate retaliatory acts (e.g., lawsuits and lobbying for increased regulation) by some exchange parties. A recent study of slotting allowance practices and minority matching policies indicates that perceptions of inequity can lead to reduced satisfaction and trust in exchange relationships (Smith 1990). Fair exchanges are those that transcend legal mandates. Exchange participants striving to build relationships should rely on equity as a cornerstone.

Responsibility

Responsibility implies an obligation, which is the manifestation of individual ethical duties. It is the link between the manager, his or her position, and the organization. The essence of managing means taking responsibility for one's actions. Three types of responsibility are identified—role, causal, and capacity (Toffler 1986). Role responsibilities refer to the activities and obligations specified by one's formal role. Causal responsibility states simply that if one has caused a problem or harm, he or she has the ethical responsibility to correct it. Capacity responsibility implies that one has a responsibility to deal with a situation if one has the capability to do so.

Four managerial responsibilities—leadership, delegation, communication, and motivation—are essential for enacting ethical exchange policies (Murphy 1988). These responsibilities tie classic managerial duties to ethical policies. Furthermore, these responsibilities can be linked to the morality of duty (negative rules and sanctions) and aspiration (positive factors such as open communication, trust in delegation, and empathetic motivation) notions for the marketing manager.

Commitment

For an exchange to occur, participants must be committed. Characteristics of a commitment are thought to be stability, sacrifice, and loyalty. Commitment is applicable to both in-

terorganizational (O'Reilly and Chatman 1986) and interpersonal (Burgess and Huston 1979) exchange. Commitment should go beyond a strictly utilitarian evaluation of the situation's costs and benefits. As conflict and negotiation accompany exchange, commitment to working out differences is essential. The work of Williamson (1983), who uses "the term commitment to be reserved to describe exchange," can be directly applied to our legal and ethical perspective. In addition, his notion of "credible commitments" closely align with the ethical precepts discussed here. Unless trust, equity, and responsibility are apparent, commitment by an exchange party lacks credibility.

Commitment may also be employed to describe a phase of exchange relationship development (Dwyer, Schurr, and Oh 1987). Commitment refers to an implicit or explicit pledge of relational continuity between exchange partners. It is a function of each side's perception of the other's commitment, "pledges" made by each, and factors such as communication levels (Anderson and Weitz 1992). Commitment deepens when bilateral communication is the norm and both sides are willing to assume risk in a relationship.

Trust, equity, responsibility, and commitment are important for the development of relational marketing exchanges. Each guides the conduct of exchange between parties who desire more relational interaction or anticipate establishing an enduring relationship. One rationale for relying on these characteristics is the notion of "enlightened self-interest" advanced by Adam Smith. Self-interest refers to self-love/selfish interests or simply designating those interests with which one is most intimately concerned. Some observers believe that enlightened self-interest, perhaps more than anything else, justifies ethical exchange behavior. One researcher has argued that self-interest is not necessarily based on selfishness—"For Smith, then, a rational person is prudent, cooperative and fair, both naturally and because it is to her advantage to be so" (Werhane 1989, p. 680).¹⁹ This perspective seems especially compatible with the characteristics noted here.

Implications for Managers and Researchers

Several implications can be drawn from our examination of the ethical and legal foundations of exchange. For marketing managers, they pertain to the increasing emphasis on relationship marketing and the promotion of ethical managerial practices. For academic researchers, implications include questions for further inquiry and avenues for future research.

Some predict that many future exchanges will be conducted in close, extended relations (Salmond and Spekman 1986). A number of organizations already are encouraging the cultivation of long-term relational exchanges. In Europe, "relationship managers" oversee exchanges with key customers (Ford 1980). In the U.S., Nestle and Baxter International encourage long-term relationships through sales force incentives to stay in the same territory (with the same customers) for longer periods (Schellhardt 1991). These examples and those offered in the introduction of this article

¹⁹For more detail on the ethical component of Adam Smith's works and classical economics, see Dixon (1982).

(Motorola, Toyota, and American Express) highlight current relationship marketing efforts by firms.

In some instances, the development of relational exchanges may not provide results compatible with the mission and strategies of an organization. Spot market or transactional exchanges represent a viable and needed form of business for some commodities and goods. Moreover, the use of and strict reliance on formal contracts remains an accepted and essential practice. For these exchanges, ethical principles, though not paramount, still provide a necessary foundation for the transaction. Without moral principles to guide conduct, even the simplest of exchanges risks failure.

Beyond exchange relationships, a potential concern for relational exchange is an anticompetitive outcome. Though relational exchanges can enhance the individual efficiency of participants, anticompetitive results in terms of aggregate social costs also can occur. Relational exchange can facilitate the creation of cartels (Posner 1976) and elevate entry barriers to an anticompetitive level (Williamson 1979). Less persuasive arguments have also been advanced relative to excessive product differentiation (Comanor 1968) and the negative effect of relational exchange on industry dynamics (Goldberg 1979). Relational interaction can serve as a basis for collusion in restraint of trade, especially among rivals. Sharing of information and other proprietary property between exchange parties also can raise implications for innovations and related advances (i.e., trademark and copyright). However, recent case law and enforcement initiatives by the U.S. Department of Justice and the Federal Trade Commission suggest that concern for the anticompetitive effects of relational exchange in vertical relationships is not paramount. Consistent with policy articulated in the 1970s, neither agency has devoted substantial resources to this area. Current case law parallels this trend (Ornstein 1989; Steuer 1989).

Ethical Managerial Practices

We offer several avenues for firms desiring to use ethical principles for guidance and marketers who wish to move toward more relational exchanges. The organization should go beyond the existence of an ethical code or public proclamations by the chief executive officer on ethics. Specific proposals include the following:

- *Creating an ethical corporate culture*—A long-term objective in building primarily relational exchanges is to create a culture that reinforces ethical behavior. Through a system of rewards and open communication, a company can foster a culture in which employees know they will be rewarded for doing the right thing. The Business Roundtable (Keogh 1988) discusses such programs at companies like Xerox, Boeing, and Hewlett-Packard. The purpose of this approach is to create a climate in which ethics is a hallmark of the firm.
- *Instituting ethics training programs*—Such programs should sensitize salespeople, purchasing personnel, and other marketing department employees to their ethical duties. As Browning and Zabriskie (1983) point out, these programs are needed for both new and experienced personnel. The purpose of the training programs should be to place emphasis on collaborative and trustworthy relationships rather than competition and suspicion. Furthermore, Goolsby and Hunt (1992, p. 65) advocate a specific focus—“marketers who want to encourage a corporate culture embodying high

ethical values may want to emphasize cognitive moral development in training programs.”

- *Conducting an ethical audit*—An ethical audit is similar to the social audit suggested by Kizilbash and his coauthors (1979). A series of questions can be developed to ensure that ethical guidelines are being carried out. They can serve as a basis for evaluating a firm’s ethical standing. Such an audit would be useful for a firm with high ethical standards, such as Johnson & Johnson, to use in evaluating a new supplier or dealing with a firm without an explicit credo or code of conduct (Williams and Murphy 1990). The purpose of an ethical audit is to ensure that ethically relevant questions are being asked so that truly relational exchanges can be fostered.

Academic Research Directions

For researchers examining law and ethics in exchange, several implications are apparent. Research that investigates issues central to the propositions advanced here is needed. These fall into four areas:

- *Examination of ethics across exchange types*—Several questions need further study, for example, what role do ethical considerations play in advancing relationships from transactional toward relational exchanges? How do individual ethical considerations differ from group-generated norms such as solidarity and reciprocity (Nooteboom 1992)? How do these differing mechanisms of governance work together within exchange relationships? Are there differences in the level of ethical values present across differing exchange forms? What specific ethical values are important in establishing trust, commitment, and solidarity of association in exchange relationships? Research examining these issues should consider the use of longitudinal analysis and ideally be conducted across several different types of organizational and consumer exchanges in order to track the changing nature and impact of these values.
- *Operationalization of ethical dimensions*—Measures are available in the literature to operationalize the dimensions of ethical exchange proposed as central to moving toward the relational form. For example, Swan and others have developed a scale to measure trust (Swan, Trawick, and Silva 1985; Swan et al. 1988; Moorman, Zaltman, and Deshpande 1992); Anderson and Weitz (1992) have undertaken a similar process for commitment; and the work of Oliver and Swan (1989) in equity contains viable operationalizations. The next step is to refine these measures and utilize them together. The area of responsibility needs measurement development. Specifically, role, causal, and capacity responsibilities must be clearly defined.
- *Analysis of functional areas*—Functional areas in marketing, such as advertising and personal selling, could benefit from similar ethical and legal analysis as provided here. For example, ethical implications surrounding deception in advertising and bad faith in negotiations could be fruitfully explored. Interestingly, a review of the case law that addresses bargaining and negotiation indicates the law has become infused with ethical standards and norms of conduct (Shell 1991a, 1991b). In this respect, legal scholars have suggested “a new standard of business ethics” has resulted in the shift of legal doctrines related to nondisclosure in recent years (Keeton et al. 1984). Research that focuses on the interplay of ethics and law prior to an exchange or development of a relationship was not explored here and is a needed area of inquiry.
- *Investigation of international exchange*—Cross-cultural studies investigating the preceding issues are also required.

What ethical values are associated with exchange development in other societies, such as those in Japan and Eastern Europe? Which ethical dimensions (e.g., trust, equity, responsibility, commitment) are most important in different cultures? Can researchers use similar instruments and scales to study global legal and ethical questions?

Answers to these questions can prove invaluable in understanding and enhancing exchange associations. Research by Hunt, Wood, and Chonko (1989) suggests that corporate ethical values are important for establishing intrafirm commitment by marketers. Companies that promote high ethical values also appear to increase the commitment of their marketing employees. These findings can also apply for exchange relationships. Reinforcing ethical behavior is important for improving performance and achieving success in the marketplace.

Conclusion

Several conclusions can be drawn from this article. First, an understanding of the legal and ethical foundations underlying exchange is essential to the development of exchange relationships. Second, analyses of both foundations of exchange highlight the growing significance of ethical principles as one moves across the exchange continuum. Third, implications for marketers interested in moving toward more relational exchanges are that greater emphasis should be placed on implementing ethical considerations into their firms' decision making. Building trust, establishing equity, developing responsibility, and solidifying commitment appear to be important exchange dimensions. Finally, future academic researchers might study ethical versus legal considerations, operationalization of relevant variables, analysis of functional marketing issues, and cross-cultural exchange.

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