Mechanisms and Ethics of Sustainable Exchange: Interaction and Sympathy in Relationship Marketing

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Abstract
Smith (1896) argued that societal virtues arise through the function of reputational sanctions as self-interested entities engage in repeated transactions. Relationship marketing research, on the other hand, examines sustained business relationships mediated by trust and commitment to the exchange partner. Modern consumers with freedom of choice engage in repeated transactions of general consumer goods without recourse to the coercive power of sanctions or authority. The nature of the actions and the subject matter of such transactions are likely to differ from Smith's assumptions. This study conducts a theoretical examination of the mechanism of interaction and trading entities in persistent exchange using a model that elaborates on social exchange theory (Blau, 1964). Economic exchange is an equivalent exchange with no imbalance between trading entities. In other words, there is no opportunity for persistence. However, the seller considers the consumer's act of selecting a specific product from the myriad choices on the market to be the source of the provision of reward. From the response to this conferral, an incidental social exchange is triggered, and unspecified obligations of return alternate between the transacting entities. A social bond of trust and mutual attachment can be formed by sustaining a voluntary, non-coercive exchange relationship between entities. Consumers who repeatedly purchase within this relationship are not simply engaging in self-interested homo-economicus, but may be subjects with sympathy as described by Sen (1977) since they consider the welfare of the seller their own well-being.

Keywords: Incidental Social Exchange, Intrinsic Rewards, Sympathy, Homo-Economicus
1. Introduction

A. Smith (1896) argued that repeated business transactions form the basis of virtues, such as probity within society. These virtues, Smith states, arise from the self-interest of the transacting entities. The self-interest of transacting entities is the starting point for commercial transactions, but because of the sanction of reputation, there is a moral formation in society to keep promises and engage in honest exchanges. If the transaction is a one-time exchange with a different party, the party who cheats will benefit. However, if you are frequently dishonest in your dealings within society, you will suffer losses due to reputation issues. "A dealer is afraid of losing his character and is scrupulous in observing every engagement" (ibid., pp.253-254).

What is stated here can be understood as a schema of the formation of utilitarianism ethics. This comprises the functions of social reputational sanctions in maximizing the utility of the entire body of trading entities despite repeated selfishly motivated transactions. What emerges from the discussion of this aspect by Smith is the self-interested, rational homo-economicus envisioned by mainstream economics.

Incidentally, marketing is significantly concerned with creating a repetition of exchange, the premise of this discussion. Establishing sustainable transactions is a marketing goal. The reason for this is that if a one-time transaction ends without multiple purchases being achieved, the business will not be profitable. As discussed below, relationship marketing research reveals that the factors positively affecting transaction persistence are trust in the reliability and integrity of the counterparty and their commitment.

Ethical factors are involved in both Smith's argument and the marketing analysis of sustainable purchasing, but they are positioned differently. In Smith's argument, reputational sanctions are in place when making repeated transactions between trading entities, leading to a virtuous result. However, in B-to-C general consumer goods transactions in modern competitive markets, consumers have freedom of choice. In the absence of reputational sanctions or the power to subdue the other party, as described below, trust and other relationships are formed and sustained transactions occur. From this viewpoint, rational homo-economicus and relationship marketing, which are assumed by mainstream economics to have been initiated by Smith, seem to differ in nature and the environment in which they are placed.

This study elaborates on the theory of social exchange to provide a theoretical examination of a model that explains the mechanisms of interaction occurring in the sustained trade of common contemporary consumer goods. Through this, we will also examine the kinds of subjects the sellers and buyers who practice sustainable transactions and the ideal ethics of subjects in marketing.

2. Mediating variables in relationship marketing

1) Sustaining exchanges without coercion

Levitt (1983) noted the difficulty in establishing lasting business relationships when stating, "The sale, then, merely consummates the courtship, at which point the marriage begins. How good the marriage is depends on how well the seller manages the relationship." Since then, relationship marketing research has focused on sustained relationships between sellers and
buyers. Morgan and Hunt (1994), who have been highly cited at the beginning of their research, define relationship marketing as, "Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges." The object of the relationship set up in their study is broad, encompassing not only the company and its customers but also employees and the government. This included both marketing and all corporate activities in general.

However, Morgan and Hunt limit the scope of what a relationship can be and state that it is not power or the ability to impose conditions on others responsible for the success or failure of a lasting relationship. It is noteworthy to point out that the study in question dismisses the intervention of power.

The power to conduct one's own will in social relations to the exclusion of the resistance of others (Weber, 1922) has become a major concept in the analysis of distribution channels and business relationships within firms. Discussing inter-enterprise transactions, such as those between prime contractors and suppliers, as well as the understanding of employee-company relationships, involves an analysis of how power is procured and exercised to coerce and condition the behavior of trading partners (Stern, 1989).

However, the business relationship between firms and consumers in a competitive environment for general consumer goods presents a different picture from that of business-to-business transactions. Sellers desire sustainable business relationships to increase revenues, but it is fundamentally difficult to force buyers to make purchases. Consumers are always free to choose the products they want to buy from the options available in mass retailers' stores and internet shopping malls, and there is no sanction for buying any product available.

Unlike business-to-business transactions, the market for consumer goods guarantees maximum freedom of choice for buyers. The original concept of marketing, that the products a company tries to sell are determined by the consumer (Levitt, 1960), presupposes the freedom of consumer choice, where there is no coercion of power.

If it is possible to sustain a successful business relationship in such a free competitive market, without external forces, then there must be some internal factors that sustain the relationship, including on the part of the buyer. Relationship marketing research also covers the sustained business relationships of consumer goods purchases. The consumer goods market must identify which internal factors that sustain the transaction while maintaining the free-will-based exchange relationship. Morgan and Hunt argue that the factors are "commitment" and "trust."

2) Implications of the KMV model

The (Key Mediating Variable) (KMV) model presented by Morgan and Hunt positions commitment and trust as mediating factors between antecedents and outcomes in the persistence of good business relationships. The five variables are antecedent conditions, which include communication and shared values, that exist among transacting entities. These variables lead to five outcomes, including amenability and cooperation via mediating factors.

In the KMV model, commitment is defined as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it...."
On trust, they state, "We conceptualize trust as existing when one party has confidence in an exchange partner's reliability and integrity." This confidence relates to the qualities of consistency, responsibility, kindness, and benevolence of the counterparty.

A comparison of the KMV model and a model that directly links the various conditions to each outcome for business-to-business transactions shows that the KMV model with mediating variables is a better fit. Regarding the influence relationship between mediating variables, based on social exchange theory and other theories, the model is structured as follows: the more confident a person is in his/her trust relationship with the other person, the more important he/she believes it is to maintain a lasting relationship with the other person. This is because trust influences commitment.

Morgan and Hunt's research examined various studies on all relationships of corporate activities, testing two mediating variables. However, the study does not clarify the effects of factors such as trust aroused in the subjects of the transaction during the exchange process.

We will begin our review with an overview of social exchange theory, which is the foundational theory of most relationship marketing research.

3. Review of social exchange theory

![Figure 1 Model (Morgan & Hunt, Figure 2, 1994)](image)

1) Characteristics and classification of social exchange

Our social lives enable us to engage in various interactions with others. Exchanging money and commodities in the marketplace is typical of such interactions. The payment of money for goods is an economic exchange. In addition to economic transactions, people engage in interactions that could be called exchanges. Buying lunch for a colleague who gave you some job-related advice, thanking people back for the kindness they have shown you on your travels, and other such non-monetary interactions are captured in the concept of "social exchange."

Social exchange theory was developed by Homans, Blau, and others and was influenced by anthropological exchange studies in various ways. In contrast to Homans (1961), who based
social exchange on psychological responses, Blau attempted to explain social relations such as norms, power, and social bonds through the concept of exchange.

In "Exchange and Power in Social Life (Blau, 1964), Blau distinguishes the aims of his theory from Homans et al. by stating that the problem is of deriving the social processes that govern the complex structures of communities and societies from the simpler processes that pervade the daily intercourse among individuals and their interpersonal relations (ibid., p.2). Below, we will organize Blau's theory of social exchange in terms of unspecified obligations and the categories of rewards exchanged.

On the difference between an economic and a social exchange, Blau states, "The basic and most crucial distinction is that social exchange entails unspecified obligations" (ibid., p.83). In an economic transaction, the obligation to pay $150 for a commodity priced at $150 is explicitly stated, and an equivalent exchange is made through mutual agreement. Contracts regarding deadlines and interests are also exchanged and mandated by legal norms.

In social exchange, there is an obligation to give back, just as with economic transactions. In a society where business relationships are limited, if no response is made to a favor given or a party to which one is invited, one may be excluded from social relationships. The obligation to reciprocate the provision of compensation is common in economic exchanges. However, social exchanges do not have any specified obligations. There is no stipulation as to the compensation that will be given in return, nor is there an agreed time limit. Even if the giver expects a return gift, the recipient cannot specify the content or deadline, and coercion has no function in the exchange. Thus, in social exchange, the obligation to reciprocate a favor is not explicit or specified.

Recompense for trade during social exchanges can be divided into two categories. Gifts and other physical goods and useful services such as advice are classified as "extrinsic rewards." There are also exchanges for rewards not limited to material goods or tangible services. The gratitude, respect, love, and social acceptance exchanged during such exchanges are classified as "intrinsic rewards" (ibid., p.88).

Concerning intrinsic rewards, those that arise from psychological effects, it is important to be mindful of the following. People can give them without expecting anything in return. An example of this is a parent-child relationship. In doing so, the entity that provides the service also experiences inner gain, such as a feeling of gratification. If this is viewed in terms of the concept of exchange, all volitional acts could be classified as exchanges.

To exclude self-fulfilling acts from the exchange concept, Blau stipulates that rewards are "spontaneous reactions" (ibid., p89) from others that result from the subject's actions. The scope of social exchange is restricted. "social exchange as here conceived is limited to actions that are contingent on rewarding reactions from others and that cease when these expected reactions are not forthcoming" (ibid., p.5).

The actions of the recipient entity are positioned asFigure2 according to this provision. The scope of (a), in which a reward for a spontaneous reaction by the other party is expected following action, is the intrinsic reward of social exchange. Unconditional affection with no expectation of return (b) and self-gratifying acts performed without another person (c) are not exchanges.
2) The tendency for persistence in social exchange

Next, we examine the actions by which social exchanges are repeated. In economic transactions, consumers lean toward commodities out of various physiological and social desires, sellers seek money, and commodities and money are exchanged. The social exchange also results from our inclination to seek both intrinsic and extrinsic rewards from others (ibid., p.92). If either entity makes some kind of offer with the expectation of a reward from the other, and if the other successfully returns the offer, an exchange is established.

However, economic exchange has no imbalance once the exchange of commodities and money has been completed. In principle, the relationship between the two ends there. However, social exchanges tend to be repeated exchanges, as in primitive societies and modern-day greeting cards and social networking sites. Blau describes multiple factors that sustain social exchange. Three factors are presented here.

"The gradual expansion of mutual service" (ibid., p.94) in social exchange is the first factor that sustains an exchange. The obligation to reciprocate social exchanges is not specified. The person making the initial donation lacks trust in the recipient and risks not receiving a return. Thus, the donation only entails a small “contribution.” If they get the expected return from the other party, the reward will accumulate gradually. Multiple exchanges occur because trust is built only through repeated exchanges of increasing rewards.

Second, social exchange tends to persist because the value of the reward is defined by the donor. Goods traded during an economic exchange, for example, cans of Campbell's soup, have the same benefits regardless of the supermarket from which you buy them. The value of the same unit of money is strictly equal no matter from which consumer it is obtained. However, in social exchange, the value of the reward varies depending on the party to whom it is given. This is evident when the reward exchanged is love (ibid., p.76). Social exchange is an iterative exchange with a specific subject because of the limited number of entities that can offer valuable rewards.
The third factor that sustains social exchange is sought in the bonds of attachment that are formed between the entities engaged in the exchange. Blau presents four typologies of social cohesion, as shown in Figure 3. A relationship of "exchange" with a mutually balanced provision of external rewards between subjects is a fundamental form of social exchange.

If there is an imbalance on the part of one party to the exchange that prevents the other party from fulfilling its obligation to reciprocate the external reward obtained, debt is owed to the donor. Here, the donor is forced to submit to the desires of the donor, resulting in a type of asymmetrical "power" relationship. If the value of the intrinsic reward offered is not recognized by the other party and an imbalance of offerings occurs, the relationship becomes one of "one-sided attachment." If both parties provide intrinsic rewards to each other and if the exchange of these rewards is balanced by both parties safely recognizing the value of each other's rewards, they will achieve a social bond with "mutual attachment."

Regarding mutual attachment bonding, the exchange subjects often become committed to the partner relationship and cease further exploration (ibid., p.101). Once the social relationship of mutual attachment bonding, in which the relationship itself becomes self-objective, is established, the exchange will continue.

In economic exchange, the relationship between the exchange parties is completed in a single transaction. In contrast, social exchange is sustained by multiple factors: the tendency toward gradual expansion, the contingent nature of reward value, and the social cohesion of mutual attachment.

4. Incidental social exchange

1) Social exchange that accompanies the economic exchange

Social exchange theory sees economic exchange and social exchange as distinct. Expanding on this, this paper proposes a perspective of "incidental social exchange to economic exchange." Even in contemporary market societies, social exchange is practiced in conjunction with economic exchange. In financial and capital markets, where money itself is traded, the influence of social exchange factors may be negligible or minimal. However, it could be argued that social exchange is fundamentally associated with transactions in labor and commodity markets.
In the labor market between companies and employees, economic transactions of wages and labor power and social exchanges actively occur to establish business activities. As made clear by management and industrial sociology (Barnard, 1938, Imai et al., 1982), extrinsic rewards such as benefits, unpaid overtime, and mutual support among employees are exchanged within firms, as are intrinsic rewards such as mutual care, organizational love, and commendation.

Additionally, in B-to-B transactions between businesses in the commodity market, both intrinsic and extrinsic rewards such as sincerity, gratitude, and hospitality are exchanged. These cannot be reduced simply to economic exchanges. In relationship marketing research, the importance of the social exchange factor in sustained transactions between businesses has been examined in the case of tire dealers and manufacturers by Morgan and Hunt (1994) and the case of web production companies and ordering companies by Kubota (2012).

In business-to-business transactions and the labor market between firms and employees, the scope of exchange entities is limited, and social sanctions function when failing to uphold obligations to reciprocate. As a result, the environment is conducive to social exchanges incidental to economic transactions. It also exercises the power of the prime contractor or employer to impose coercive conditions on the conduct of its suppliers and employees with whom it does business. The power at play there is generated by the provision of unbalanced social exchange rewards by one side.

So what about transactions of general consumer goods? The closest thing to a pure form of economic exchange in a B-to-C transaction would be a vending machine transaction. In other transactions of general consumer goods, social exchanges between businesses and customers are a natural part of the business and can even be a major element of business operations.

Sellers looking to increase their revenues desire lasting business relationships. However, multiple sellers compete in the marketplace, and consumers, as modern individuals, have the freedom to choose their products. Thus, neither sanctions nor power is effective. Individual sellers with goods of inferior marketability (Menger, 1871) relative to the money held by the buyer are placed in a relatively weak position. Because of its fragility, social exchange is practiced as a marketing activity with the expectation of securing sustainable transactions. Even in today's highly rationalized and efficient business climate, social exchange is still incidental to economic transactions.

All McDonald's stores in Japan display a "0 yen smile" menu along with the prices of hamburgers and other items. The chain's employees describe this reward, which is offered to customers without the expectation of compensation, not as a "fake smile," but as an expression of "thanking the customer for coming." In other words, it is a spontaneous reaction (Mitate, 2007).

Since its establishment in Japan in 1973, Seven-Eleven has operated its business based on four basic principles: product assortment, freshness management, cleanliness, and friendly service (Yahagi, 2019). Among them, "six major customer service terms," including "Welcome" and "Please come again," form the foundation of friendly service, and all store employees must recite them at the beginning of their workday. In this way, the chain demonstrates "care" as a seller and gains "psychological closeness" with its customers (Yamakawa, 2013).
Even in the marketing activities of these rational businesses that offer general consumer goods, an accompanying social exchange is practiced that offers rewards such as hospitality, appreciation, and consideration.

2) The establishment and persistence of incidental social exchange

This section examines the cyclical mechanisms of the interaction between the formation and perpetuation of incidental social exchanges in consumer goods transactions. The seller of the product extends a warm "welcome" to the consumer before purchase. Even after the exchange is concluded, the customer is seen off to the storefront and thanked for his or her visit and purchase.

Although the consumer has no motivation to conduct repeated transactions, this is something the seller desires. The seller's hospitality, expression of gratitude, and other actions, as directly manifested in the words "please come again," anticipate repeat purchases that may result in future gains. Simultaneously, the expression of gratitude is a spontaneous reaction by the seller to the buyer's action and is a return that provides an intrinsic reward. The economic exchange is a balanced exchange that occurs and there is no reason for the seller to feel indebted. So why say "thank you?" It is to encourage which of the buyer’s actions does the seller provide voluntary counter-benefits for?

The buyer’s "commodity selection" precedes the economic transaction. Eventually, the buyer will choose one of the market options, and the transaction will be an equivalent exchange. However, the buyer of the product is not subject to power or coercion but instead chooses this product over others. The buyer's selection of the commodity is seen by the seller as the provision of a benefit offered in conjunction with the economic exchange, the extrinsic reward of the social exchange. In a monopoly market with no freedom of choice or a fully planned economy, the buyer's choice of goods would not constitute a benefit to the seller. The mechanism of incidental social exchange operates because buyers select certain goods in a free competitive environment.

This provision should be reciprocated. The seller of the goods provides an intrinsic reward of appreciation to the consumer as a counter benefit. The counterparty, on the other hand, must repay the seller for the reward provided. However, social exchange is an "unspecified obligation," and consumers are still free to choose other products on their next shopping opportunity, which may allow for higher benefits to be gained. Nevertheless, if the seller’s marketing activities lead the buyer to abandon their freedom of choice and once more reward the seller by choosing their product as a spontaneous reaction, a repeated purchasing relationship is set in motion.

Even from the seller’s perspective, if the buyer is not just cherry-picking, but is a repeat customer who has made a re-selection of goods, that behavior should be rewarded. The obligation to reciprocate arises, and the seller again offers more smiles and friendliness. Thus, the exchange is repeated (Figure4).
The sequence of interactions in an incidental social exchange forms mutual trust. "By discharging their obligations for services rendered... individuals demonstrate their trustworthiness, and the gradual expansion of mutual service is accompanied by a parallel growth of mutual trust. Hence, processes of social exchange, ...generate trust in social relations through their recurrent and gradually expanding character" (Blau, 1964, p94).

As transactions cycle through the incidental social exchange that accompanies economic exchange, "The expanding exchange of benefits of various sorts between individuals makes them increasingly interdependent, establishes mutual trust, and fortifies their social bond" (ibid., p107). The customer may eventually become a trusted business partner of the product provider, and/or the customer may become a valued customer of the business. Therefore, a social bond of mutual attachment (Figure 2) may be established between the entities that engage in the economic exchange that accompanies the social exchange, meaning that the relationship may endure.

3) The ethics of the entities involved in sustainable exchanges

If the economic exchange is repeated with the incidental social exchange, the buyer sees the expression of gratitude by the seller as a gain for him or her, or an intrinsic reward.

For the buyer to view the expressed gratitude as a reward, observation of the external action is not sufficient. Rather, empathy for the other party is necessary. It must be ascertained by understanding the inner feelings of the other party as to the extent the seller's expression of gratitude is truly a spontaneous reaction and not just empty words. The buyer is making an "imaginary change of situation" (Smith, 1759, I.i.4.6), placing him or herself in the seller's internal position.

Gratitude research depicts gratitude as being an emotion evoked by the assumed intentions and costs of the giver and benefits gained by the beneficiary (Tesser et al., 1968). In other words, the seller's expression of appreciation for the buyer choosing their product is an expression of the buyer's inner feeling that the buyer has deliberately chosen the product over other options and that the seller is happy to benefit from their product being chosen. The
buyer, who sees that expression of gratitude as a reward, empathizes with the seller of the goods and sees the benefit and happiness of others as their gains.

According to A. Sen (1977), "When a person's sense of well-being is psychologically dependent on someone else's welfare, it is a case of sympathy." A buyer's repeated purchase of a product in response to the seller's appreciation is rooted in Sen's definition of "sympathy." Simultaneously, Sen acknowledges, "For many studies of consumer behavior and interpretations... sympathy may not be extremely important..." However, the externality of concern for the gain of others, which cannot be reduced to self-interest, is manifested in a very common consumer behavior: the continued purchasing of products.

The seller of the commodity is the entity that sees the economic exchange, which is nothing more than an equivalent exchange, as a provision of benefit by the other party and provides the return of an intrinsic reward in the form of a spontaneous reaction. Customers who repeatedly purchase a product are not selfish, rational economic agents but actors who empathize with the other party's inner self and view the welfare of others as their well-being. The sustainable transaction of the interaction of social exchange incidental to the economic exchange of general consumer goods is a process of moral participation that does not depend on power or sanctions. Instead, it requires empathy for the inner feelings of the entities involved in the transaction.

5. Conclusions and future directions

1) Conclusion

Based on the theory of social exchange, this study theoretically examines the mechanisms of interaction occurring in sustained business relationships targeted by relationship marketing of general consumer goods and the ethics of sellers and buyers that enter these relationships.

Sellers and buyers make equivalent exchanges through mutual agreement. Economic exchanges of money and commodities are completed in a single transaction. However, the seller sees the buyer's act of choosing a particular product among the myriad choices in the competitive market as offering a reward. The seller, who may expect to gain from repeated transactions, offer intrinsic rewards in return, such as appreciation to the buyer as a counter benefit to choosing their product.

In the market for general consumer goods, social sanctions and coercive power do not have any effect, and buyers have the freedom of product choice. However, the provision of a reward from the seller's side creates an unspecified obligation of social exchange for the buyer. Buyers relinquish their freedom of choice and repeatedly purchase the same seller's product rather than a myriad of other options that may be more beneficial. Over time, a relationship of trust and mutual attachment is formed between the entities involved in the transaction. We present a circular model of "incidental social exchange, an interaction relationship where rewards are provided alternately and transactions are repeated.

Additionally, consumers who make repeated purchases can be deemed subjects who possess what Sen refers to as "sympathy." Unlike selfish and rational economic agents, these people perceive the welfare of the seller as their well-being.
2) Factors in product evaluation and their application to ethical consumption

This paper does not examine the factors that contribute to consumers' evaluations of product benefits. The extent to which satisfaction with a product leads to repeat purchases is debated, but it is believed to be at least one of the major contributing factors (Kumar, et al., 2013). It is necessary to theoretically examine and verify through research how commodity evaluation affects incidental social exchange and how empathy and attachment function as mediating factors.

The framework for the incidental social exchange model, in which the choice of goods is based on empathy for the inner feelings of the seller that are expressed, can be applied more actively to ethical consumption. Consumers who empathize with the seller’s commitment and actions in using their business to do good will make proactive product choices. It also allows for high added value in products. Corporate activities that bring about such effects are called Social Marketing or Cause-Related Marketing (Brønn et al., 2001), and are being actively expanded. Research should also be conducted on the mechanisms of interaction in ethical consumption and social marketing.
References


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