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The foundations¹ of relationship marketing: reciprocity and trade relations

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Abstract. *In this paper I examine relationship marketing from an historical perspective. As a predominantly industrial marketing strategy, reciprocity was adopted by numerous organizations and discussed in detail by marketing scholars from the 1920s until the late 1970s, and these debates indicate that reciprocity was largely relationship marketing orientated in nature. By the late 1960s and early 1970s, reciprocity had fallen into disrepute. In its place arose ‘trade relations’ and trade relations management. Reciprocity was marginalized, this paper documents, due to the focus of the Federal Trade Commission, Justice Department and the Supreme Court on a number of prominent cases of anticompetitive reciprocity. From trade relations, debates pertaining to ‘corporate diplomacy’, ‘diplomatic marriage brokers’, ‘business relations’ and relationship marketing developed. **Key Words** ● history of marketing ● history of marketing thought ● marketing concept ● reciprocity ● relationship marketing ● trade relations*

There is no reason why cordial, friendly and genuinely social cooperation should not take the place of vicious, vindictive and unfriendly competition. There is no reason why a desire that all should prosper should not take the place of the present hope that all but self shall fail. There is no reason why industrial peace should not take the place of industrial war. (Eddy, 1912/1915: 109)

The vital role played by a good trade-relations man is clear. For companies establish trade-relations departments for a large number of purely selfish, though entirely legitimate reasons: to increase sales, to build long-range contacts with customers and suppliers . . . to cut down the costs of doing business by opening doors to sales, to have a clearing house for all trade information, to keep one division from negating what another is doing . . . and to stay out of legal difficulties. (Adams, 1965: 28)

Co-operative relationships between organisations may create added value for the partners involved, but they can also pose a threat to the competitiveness of markets. (Palmer, 2001: 761; emphases in original)



Introduction

According to Grönroos (1996), relationship marketing (RM) is concerned with the development of long-term 'relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met' (Grönroos, 1996: 23). But despite all of the attention that RM has garnered, 'relationship marketing has not been examined *in detail* from a historical perspective' (Keep et al., 1998: 31; emphasis added). It should be noted that marketing historians have argued that RM is no more than a semantic revision of the original marketing concept (Brown, 1998; Jones and Shaw, 2002; Shaw and Jones, 2005; Shaw and Tamilia, 2001; Tadajewski, 2008, 2009a; Tadajewski and Jones, 2008; Tadajewski and Saren, 2009). So logically, if RM is a revision of the original marketing concept, then the practices associated with RM should be found much earlier than they are usually presented in reviews of its intellectual emergence (e.g. Harker and Egan, 2006; Möller and Halinen, 2000; Palmer et al., 2005).

Registering this, while inter-firm and customer-supplier relationships have been characterized on the basis of a multitude of features, it has been suggested repeatedly that reciprocity is an important axis of RM, since without any reciprocal basis, there would be no relational connection (Bagozzi, 1995; Day and Montgomery, 1999; De Wulf et al., 2001; Desmond, 1998; Peelen, 2005; Pervan et al., forthcoming). Assuming this, I chart the emergence of reciprocity in the 1920s and make the case that exchange relationships in marketing thought have been more complex than has been supposed to date.²

My account will therefore differ from that of Sheth and Parvatiyar (1995), who use their brief discussion of reciprocity to highlight what they think is the point of demarcation of reciprocity from the later turn toward RM. They assert that reciprocal activities focused on discrete transactions and were presumably akin to transaction marketing, rather than RM.

My interpretation of reciprocity will demonstrate that it shares more similarities with relationship rather than transaction marketing. As a way of differentiating my argument from that more frequently found in the RM literature, Håkansson's (2006: 147) suggestion that there was a major shift in market relations in the 1970s may as well serve as our benchmark. He says that the 1970s saw the formation of 'more extensive business relationships between companies buying and selling to or from each other or cooperating in any other way'. This may indeed be an accurate characterization of some industries, but I think it overstates the extent of any historical shift to an unwarranted degree. In response, I examine the development of reciprocity as a phenomenon central to marketing relationships from the early 20th century onwards. I draw attention to the almost completely ignored foundations of RM, revealing the semantic shift of reciprocity into trade relations and from trade relations into 'corporate diplomacy', 'business relations', 'diplomatic marriage brokers' and into RM. Let us begin.



Cooperation and anti-trust laws

The late 19th and early 20th centuries witnessed important changes in US business practice. While not entirely unproblematic (see Tadajewski, 2009a), many commentators were advocating increased inter-organizational cooperation and coordination of business activities. Key figures in these debates were Eddy (1912/1915), Gary (Bulletin, 1915) and Steinmetz (Bulletin, 1914), all of whom were interested in encouraging closer relationships between business concerns. Competition, on their interpretation, was detrimental to business and economic development. This was a fairly radical view according to Eddy, who argued that previous competition was thought to be the 'life of trade' when 'it may be the reverse' (Eddy, 1912/1915: 2).

He goes on to add that it is not competition that is the basis of 'the history of every industry', 'The history of every industry has been a story of the rise and fall of cooperation' (Eddy, 1912/1915: 25). Rather than competing to such an extent that firms would put each other out of business or to the other extreme, engage in the restraint of trade via monopoly, Eddy called for business to be organized on a more systematic basis. Getting businessmen to cooperate, instead of compete on a 'destructive basis', would not be easy. As Nelson (1923: 13) put it, even 'the most intelligent of business men find it difficult to grasp the spirit of cooperation . . . Filled, as he is, with distrust and suspicion of the motives and actions of his competitors, the ordinary businessman is not easily reconciled to a program which involves cooperation with them in this very intimate way'.

What Nelson (1923) is referring to here is the sharing of a complete range of statistics regarding production and sales figures between members of an industry, which would enable them to more effectively manage their operations (Eddy 1912/1915: 35). In order to encourage the diffusion and application of his ideas, Eddy arranged for business people to meet informally and frequently (every month) to discuss the current issues facing their industries. According to Nelson, in 'these meetings members freely discuss all matters of interest bearing on the problems of their industry' (Nelson, 1923: 10). By distributing information in this way, firms were better positioned to respond to changes in the marketplace and this was especially useful for those companies who did not have the resources to engage in extensive – and costly – market research. And Eddy reminded large firms that sharing information and best practice was not a mere altruistic or morally correct gesture (although he did occasionally lean towards the latter), it provided benefits for large firms as well:

The writer often hears the representatives of large corporations say:

'What have we got to gain by teaching the little fellow how to run his business?'

More than one thinks; first of all the friendship of the little fellow instead of his enmity; secondly, the friendship of the little fellow's friends, and he has a lot of them; thirdly, more intelligent competition and that means dollars and cents. (Eddy, 1912/1915: 161)

Of course, with public opinion somewhat against large business at this time, courtesy of the lingering influence and effects of the policies of the Robber Barons



and so forth, it was in Eddy's interest to frame his arguments with a certain degree of moral righteousness, which he did quite frequently:

In all social, mental, [and] moral progress . . . men give lie to the proposition that the strong have the right to elbow the weak to one side; on the contrary, it is recognized that the most precious privilege of the strong is the succoring of the weak – that is life at its best. (Eddy, 1912/1915: 15)

Even with the feelings of distrust that Nelson (1923) described, business leaders were relatively quick to rally around this form of 'new', 'intimate' competition, as a speech given by the Chairman of the Board of Directors of the United States Steel Corporation, Judge Elbert H. Gary indicated. Gary criticized the traditional business axiology that was based

on a distrust of one's competitors; on the feeling that, to succeed yourself, you must crush your rivals; and on the solid belief that they were mean enough to feel the same toward you. As a result, every man went out knifing for his competitors; and industrial panic spread like wildfire. The smaller concern went down to ruin, and the stronger, which worried through to harbor, required financial experts to heal or hide his wounds. No one benefited from this – all suffered, manufacturer and consumer alike. (Gary in Bulletin, 1915: 21; see also Frederick, 1930)

For Gary, the obvious move for any organization to make in the turbulent business environment of the early 20th century was for organizations to cooperate, rather than compete with each other.

Gary affirmed the view that a 'new order of things in business' had appeared (cf. Knauth, 1956: 166–7). Clarifying this statement, he argued that business people should avoid engaging in unnecessary and wasteful competition. It was far more productive, by contrast, to practice open, friendly communications with other members of industry, meeting and sharing information at informal events, such as over dinner. By doing so, relations of trust can develop, each learning to have 'confidence in . . . [the] . . . other . . . You can faithfully represent your stockholders, or the owners of your properties, and indulge in the keenest competition without doing anything that is destructive and oppressive or unfair' (Gary in Bulletin, 1915: 21). Gary concluded by observing that business 'Communities succeed or fall together. Competitors in trade, producer and consumer, employer and employee, the private individual and the public – all secure the best results when they work together' (in Bulletin, 1915: 21).

The view that Gary articulated was developed further by Arthur Jerome Eddy in his *The New Competition* (Eddy, 1912/1915). By 'new competition', Eddy meant that firms should no longer compete without decent knowledge of marketplace conditions, thinking the worst of their competitors, and refusing to share information where this may otherwise have been desirable. The only result of such behavior was lower profits for all. Instead, Eddy proposed that businesses in any given industry should unite, forming cooperative associations that shared all available market research, as this enabled them to better respond to changes in demand and supply conditions across the entire market, thereby bringing market forces under some semblance of control – albeit within certain non-legally contentious bounds, Eddy added.



Such marketplace control – even if it was a response to the boom–bust economic climate of the time, which many lamented – naturally enough concerned the government and legal community. Increasingly large corporations, dominating swathes of the American marketplace had not, by and large, been viewed by the public or government in overwhelmingly positive terms. And in the face of the merger movement, the government had attempted to prevent any attempts to restrict trade through the Sherman Anti-trust Act (1890) (Stocking, 1961). This Act was primarily a means of controlling any problematic aggregations of capital. In doing so, it thereby supported marketplace competition, since all combinations of business that might restrain or monopolize domestic commerce were forbidden (Stocking, 1961).

The Sherman Act and the subsequent debate surrounding what constituted ‘restraint of trade’, as well as the lack of governmental intervention to clarify its own view on this matter vis-a-vis trade associations and ‘Eddy’ associations, had the effect that many companies avoided close contact with other members of their industry or, in fact, any involvement in actions that might well be construed as an attempt at inter-organizational collusion for fear of prosecution. By legally enforcing competition, firms were prevented from leveraging the benefits associated with sharing information and this, commentators at the time claimed, was highly inefficient, regardless of what American market ideology affirmed in relation to the value of competition.

With the collapse of economies across the world and the onset of the Great Depression in the United States, the controversy surrounding the efficiency of ‘competition versus cooperation’ was reflected upon in much greater detail by various bodies. As a result, the antitrust laws were amended (see Knauth, 1948: 31, 1956: 150) to permit greater cooperation among businesses; cooperation which, in turn, was augmented by the National Recovery Act (1933) (see Lynd, 1936: 502; Stocking, 1961: 93–4). What this meant in practice was that manufacturers were now in a position to attempt to stabilize their industries by sharing accurate information about present levels of demand, production, supplies, known ‘undesirable’ customers and so forth. These regimes of inter-organizational coordination were regimented via ‘codes of fair competition regulating relationships with . . . employees, competitors, and their customers . . . insofar as possible to guarantee themselves a fair profit on their sales’ (Frederick, 1934: 377–8).

The historical record thus reveals that relationships between firms far earlier than the 1970s are actually more complicated than we should otherwise be led to expect, if extant histories of RM are correct. As the above brief historical introduction indicates, prominent members of the business community and vocal commentators on the state of the US economy were interested in developing closer relations between what should be largely atomistic entities. Indeed, there are conceptual foundations and legal precedence that made the business community likely to be receptive to further movements towards closer relations in future.

In order to further contest Sheth and Parvatiyar’s history of RM, let us recall that Ford and Håkansson have stated that ‘Relationships require action and investment today, but offer the prospect of reward only at sometime in the future.



Relationships have value for their participants beyond the immediate transactions that take place between them' (Ford and Håkansson, 2006: 250). This is a key point in much of the RM literature. Yet it is also a point of which business practitioners have long been cognizant, as I shall illustrate through a brief review of the case study of The Aimesbury Company that was published in the *Harvard Business Review* in 1924. This case provides us with a clear linkage between the reciprocal trading practices adopted by Aimesbury and those of relationship, not transaction marketing. It also forms the bedrock for the main historical content in the rest of this paper.

Reciprocity

In 1919, the Aimesbury Company wanted to purchase a substantial quantity of coal. Bids were solicited and when examined, a regular customer of the company – the Storyton Brothers – had submitted a bid that was higher than that proffered by a non-customer (HCS, 1924: 490). This placed Aimesbury's management in a predicament. The sales department wanted to purchase from their existing customer, since they expected this to reaffirm Storyton Brothers' commitment to Aimesbury and vice versa. The purchasing department, on the other hand, wanted to source from the cheaper, but non-customer.

The management at Aimesbury was happy that both concerns were able to supply an acceptable product (HCS, 1924: 490). But this raised an important question for them: should Aimesbury purchase from their existing customer or the cheaper, non-customer? The view of the sales department was, as I noted above, that Aimesbury should purchase from the Storyton Brothers to ensure continued goodwill between the organizations, in spite of the additional cost involved. The rationale for this was simple. Sales management believed that 'it was to the advantage of the company to give the order to Storyton Brothers . . . because that firm had purchased mining machinery from the Aimesbury Company for many years and its continued patronage was desired' (HCS, 1924: 490; cf. Farmer, 1960: 32; McGarry, 1951: 102; Newman and Berg, 1963: 84; Stocking and Mueller, 1957: 87).

Notwithstanding demanding the best 'price, quality and service' when purchasing goods from their suppliers, Aimesbury had traditionally given 'preference to bids made by users of its own product, provided these three factors were equal among all bidders' (HCS, 1924: 490; see also the *New York Times*, 1930a, 1930b). By purchasing from Storyton Brothers, Aimesbury were committing themselves to similar policies in the future, if their actions became public knowledge.

As a case study, the Aimesbury example was used to survey a variety of organizations regarding their use of reciprocity, with attention focused on whether the respondents thought that the company should purchase from the higher priced, but existing customer. The results of the survey indicated that a clear majority of respondents engaged in reciprocity (35 out of 45), and considered reciprocity of benefit to themselves and a 'moral norm' in Gouldner's (1960) terms:



[reciprocity is] no more than simple courtesy and good business, and possibly a moral obligation, to give business to them who give business to you in preference to those who give you none. You thereby develop your customers' business and in turn your own, in the proportion in which your product enters into his production or sale. If you starve your customer, you in effect cut off both the intake and outgo of your business to that extent. (HCS, 1924: 493)

And

We feel that reciprocity is a sound business policy, and an expedient one, although it probably could be overworked to the extent that if a company were well known to be wedded to the plan, it might have difficulty in securing quotations from those outside its scope. A reasonable amount of reciprocity tends to put business concerns on a comfortable, friendly basis, and to encourage close acquaintance and mutual interest in one another's business. It results in your securing the services of your business friends who have your interests in mind and try to extend your sales or help in any other reasonable way. (HCS, 1924: 493)

Ultimately, Aimesbury did give their existing customer a preference over non-customers; an approach that was common at the time, since the Great Depression left industry with a massive amount of industrial capacity that was simply not in use, due to low demand. High sunk costs and the decline of prices led industrial and public utility organizations to adopt reciprocity as a means of improving sales (see Breyer, 1934; Copeland, 1923; Devlin, 1933; Engel, 1937; Frederick, 1934; Knauth, 1948, 1956; Lewis, 1935, 1938, 1940; McCreary and Guzzardi, 1965; Moyer, 1970; Stocking, 1961; Stocking and Mueller, 1957; Weigand, 1973). This is not to suggest that reciprocity between businesses was as wholly mutually beneficial or necessarily as willingly entered into as that of Aimesbury (see also Barton, 1966: 617; Devlin, 1933: 363; Kaapcke, 1967: 566; Lewis, 1938: 300; Stocking and Mueller, 1957: 75, 77, 79). What this example does signal is that a central axis of RM was already being practiced in the US marketplace, where astute businessmen appreciated the value of retaining their existing customer base over the long term.

Reciprocity and goodwill

As a business policy, firms engaged in reciprocity to maintain and develop goodwill and mutually beneficial relationships with their customers, the local community and sometimes potential competitors (Lewis, 1938, 1940). It is not hard to appreciate why inter-organizational relationships gain prominence in this period. As Knauth (1948) tells us, whereas previously the owner-manager was most likely to be using their own savings and resources to finance their business activities, later managers borrowed from risk-averse groups, such as the banking industry, who demanded that any business activities had to be undertaken with a clear aim of obtaining some long-term competitive advantage and secure trade position (Knauth, 1948).

After all, investing in very expensive machinery made the liquidation of assets much more difficult, so that business '[S]uccess depended more upon carefully considered policies, designed to fit present realities and allow for future potentialities, than to seize upon momentary advantages' (Knauth, 1948: 27). Short-term



policies and decision making could be disastrous for companies (cf. Elder, 1932), and it is here that further strains of an RM orientation can be found. As a prism for understanding the business logic that was unfolding at this point, Knauth's (1948) historical analysis is illuminating, when he posited that immediate profit, although desirable, should not be the key organizational objective.

Instead of attempting to engage in a zero-sum game with relationship partners, it had to be realized that an excessive focus on immediate profits might lead to long-term losses. This was possible because 'Over-shrewdness in driving a bargain with a regular customer aroused antagonism, which might be repaid with interest when the tables were turned' (Knauth, 1948: 28). One way of encouraging customer patronage and rewarding long-term relationships with particular customers was by purchasing a customer's product(s) that the organization required when 'Quality, service and price' were equivalent to those of the competition (Lewis, 1938: 299; see also Farmer, 1960: 32; cf. Swanson, 1968: 673). If these were alike, 'it was natural for a company to distribute some of its orders for materials and supplies among its better customers as a friendly gesture of appreciation, realizing that at no added cost to itself it might thereby strengthen the good relations already existing' (Lewis, 1938: 299; cf. the *New York Times*, 1930a).

The logic that underpins the adoption of a reciprocal buying strategy is beguiling in that most comments on the practice refer to the 'mutual benefit' that two (or more) organizations will derive from trading with each another (see also Newman and Berg, 1963). In Elder's (1935) opinion it is

perfectly natural that the salesman for the steel mill should point out to the railroad purchasing agent the fact that his company routes most of its traffic over the road in question. For a producer to buy from his customer – other things being equal – is mutually beneficial. (Elder, 1935: 15)

This type of reciprocity was not simply restricted to industrial marketers alone (Lewis, 1938, 1940; Stocking, 1961; Stocking and Mueller, 1957), but it was most frequently used by large companies (Egan, 1938), especially those operating in the manufacturing industries, banking institutions, insurance, transportation, construction and public utilities (HCS, 1924; Lewis, 1938: 300).

In reference to the last of these, Lewis (1938) averred, 'public utility companies commonly buy as largely as possible from local suppliers in order to develop the goodwill of the community in which they serve, both toward [the] companies themselves and toward the service they sell' (Lewis, 1938: 300). Reciprocity, in other words, was thought to be a useful business strategy that fostered long-term relationships between organizations and contributed to positive corporate relations with the local community, thereby cultivating goodwill toward the organization (Lewis, 1935; Stocking, 1961).

The benefits of reciprocity

Throughout the 1930s the merits of reciprocity continued to be debated. Alongside expanding sales, reciprocity allegedly reduced selling costs, since close relations



between a firm and any given customer typically required less protracted discussions about price or quality issues that new prospects may have required (Ammer, 1962). The implication of this was that the sales department was able to devote more attention to the most difficult customers (Mandell, 1960: 33). For the purchasing company, on the other hand, the development of inter-firm relations with a supplier reduced the need for potentially fruitless exploratory transactions with other companies, thereby reducing search costs (Moyer, 1970; Weigand, 1973).

Even though reciprocal buying diffused throughout the business community in the 1920s and 1930s as a result of firms attempting to maintain or increase sales during the depression years, the greater use of reciprocal buying was not purely a response to the deterioration in environmental conditions. It is better thought of as a result of a steady discursive and practical modification in business philosophy that had taken place over the previous two decades. Putting this change into more contemporary language, this shift clearly problematizes the view that organizations of the time were operating in an atomistic fashion (see Bonoma et al., 1977; cf. Håkansson, 2006).

An exemplar of views that contradict the presumed intellectual hegemony that the traditional unit paradigm was believed to have possessed in industrial marketing thought until the middle of the 1960s (Bonoma et al., 1977) is found in the work of Lester (1935). He pointed to changes in inter-firm relationships that indicate a dyadic, if not network view, rather than a unit perspective, and recalled how inter-organizational cooperative relations had undergone 'marked improvement' (Lester, 1935: 232), as had

relationships between competing companies. This relationship between competitors has undergone some strain and trial during the past few years of depressed business, due to the extremely small demand for products and consequently the increased activity of competitors. Management has broadened in its viewpoint, and the benefit of an interchange of ideas and a standardization of many practices has been recognized. (Lester, 1935: 119)

Greater manufacturer involvement in trade associations over the period 1915–1935 had further stimulated multiple firms to collaborate in the interests of all, rather than secretly hoarding production and market statistics from those less able to collect this information (cf. Tadajewski, 2009b). As Lester put it, 'each manufacturer has learned that his strength through group effort is increased beyond that of [his] single-handed effort' (Lester, 1935: 119; see Lester, 1935: 282; Stocking, 1961: 316). Providing an example of 'technical' reciprocity, Lester remarked that manufacturers were well aware of the financial costs they incurred 'by each one . . . testing out in their own shops competitive equipment, and there has been a much freer interchange of technical equipment' (Lester, 1935: 119; see Elder, 1935: 216; cf. Arndt, 1979: 71). To illustrate the areas in which firms cooperated, Lester referred to 'product standardization, processes of manufacture, and the many phases of distribution. Licensing and cross-licensing under patents developed by individual companies, relating to the product and the manufacturing processes, have also helped to establish close relationships [between organizations]' (Lester, 1935: 32–3).



Reciprocity, then, was cautiously heralded as a positive contribution to business practice. As a case in point, Lewis (1938) applauded its use as a means of promoting 'friendly relations' between an organization and its current and future customer base, as it was thought that once an organization had undertaken a number of successful transactions with a prospective partner, that a long-term relationship would be forthcoming, which could benefit all involved (Elder, 1935; Frederick, 1934; Lester, 1935). As Egan reported, 'Some large corporations have gone to the extent of establishing reciprocity divisions' (Egan, 1938: 32; see also Devlin, 1933: 359). These departments were the central mechanism for monitoring

the purchases of [their] . . . subsidiaries and concentrate on finding new avenues for developing reciprocal buying. Proposals that one company favor the goods of its customers range from polite requests to outright demands that the supplier 'balance' his sales to a company by purchasing an equal amount of goods. (Egan, 1938: 32)

Tensions

Already we can appreciate the tensions involved in reciprocity. We are no longer solely in the territory whereby reciprocity was associated with the cultivation of goodwill. In spite of wanting to foster closer relationships with customers, suppliers and other stakeholders, business people became more reluctant to discuss their firm's interest in, and practice of, inter-firm reciprocal relationships. This disinclination left Lewis (1938) questioning why this was the case. Business people, Lewis believed, were unwilling to divulge their reciprocal activities because this information was proprietary in nature. By putting their reciprocal practices into the public domain, a company might inadvertently provide their competitors with information that could then be used against their own organization.

Realistically this reticence is attributable to the legal community's interest in the possible negative effects of reciprocity on market competitiveness. There had, for instance, already been an attempt to pass a bill that made it 'unlawful for any person . . . to directly or indirectly make a sale or contract . . . on the condition . . . that the vendor will in turn purchase from the vendee . . . any commodities' (Lewis, 1938: 312). This bill was not actually passed by Congress, but small companies and the public at large understandably remained concerned about reciprocity (Egan, 1938; Lewis, 1938).

Smaller companies, in particular, were depicted in the *New York Times* as feeling that reciprocal 'buying is forced upon them by the larger ones or that it offers the latter an undue advantage' (Egan, 1938: 32). Lewis imagined that this concern would translate into government and legal scrutiny of reciprocity and 'cause considerable embarrassment to some company executives' (Lewis, 1938: 312). What we see here is a shift in the nature of reciprocity, from the express desire to generate goodwill between organizations, to it transforming into a tactic that powerful companies used against their smaller suppliers and rivals alike. It was smaller companies that were likely to demand Congressional interventions into such buying practices, commentators claimed (Egan, 1938; Lewis, 1938).



Questioning the efficiency and value of reciprocity

By 1936 marketing scholars were with greater frequency questioning the efficiency and effectiveness of reciprocal relationships. Most were equivocal about reciprocity, stressing the benefits, along with the disadvantages. Reed (1936) offers us some insight here, where he argued that reciprocity 'when it is not abused . . . might be classed as good sportsmanship in business' (Reed, 1936: 15). And executives were, reasonably enough, more than happy to use reciprocity to obtain sales that they would not ordinarily have secured (Elder, 1935). According to Ammer, whatever the rationale behind the adoption of reciprocity, its use radically altered the day-to-day running of a concern and had longer-term strategic implications: 'When reciprocity becomes part of a company's way of life, it does more than help to select suppliers and customers. It can affect virtually every phase of business' (Ammer, 1962: 117).

For example, those firms that sought to practice reciprocity generally avoided moving into markets in which they placed themselves in direct competition with present and future customers, changing their investment strategies accordingly (Swanson, 1968). Connected to this, it made sense for a company to invest in products and services that their customer base actually demanded, or were likely to buy given appropriate incentives. And this could result in the kind of 'win-win' scenario that is central to RM discourse:

Fertilizer companies have a reservoir of good will with their chemical industry suppliers that they do not tap with their primary product line, which is sold to dealers in farm communities. A bag division is a natural sideline for such companies. Not only can they use the bags themselves, but they have a built-in market among their chemical suppliers, all of whom buy large quantities of bags. (Ammer, 1962: 118)

As I have already suggested, inter-firm attempts to engage in trade with potentially lucrative partners were partly circumscribed by existing reciprocal arrangements between their competitors and desirable customers, and this was a positive benefit of reciprocity for some (e.g. Stocking, 1961: 303–4; cf. Kaapcke, 1967: 563). For others, like Elder (1935) and later the Supreme Court, reciprocity disrupted the efficiency of the market: 'It may increase the difficulty of winning customers for an improved product and thus, to some extent tends to discourage [product and customer] development work' (Elder, 1935: 16). Other writers and practitioners were even less sanguine about reciprocity, pointing out that while certain relationships may benefit two partners equally, it was also a feature of the business environment that some companies were larger, more powerful reciprocal partners and therefore able to dictate the terms of trade. This view had special resonance under the competitive pressures that were a concomitant of the Great Depression, whereby reciprocity, in Reed's (1936) judgment, effectively functioned as a form of 'polite blackmail' (see also HCS, 1924: 493).

Recalling the reduced search costs associated with reciprocity (Ammer, 1962), one effect of this 'polite blackmail' was that it 'neutralized' the advertising undertaken by competitors, and directed attention away from companies that were



otherwise producing high quality products and services (Reed, 1936). The view taken by any individual businessman³ as to the effectiveness and efficiency of reciprocity was, of course, dependent on which side of Reed's example they were on. Nonetheless, Reed does gesture toward an issue – power imbalances between reciprocal partners – that proved controversial.

Power relations

Taking up this line of inquiry, Elder (1935) noted that the practice of reciprocal trading had become so widespread as to warrant investigation by the Interstate Commerce Commission. In his discussion, Elder was not referring to the more positive form of reciprocity – what Finney (1969, 1978) terms 'friendship reciprocity' that we saw in the case of the Aimesbury Company – but a more insidious version. Elder discusses one company that used its financial muscle as a 'club to force sales'. Those potential reciprocal partners who were 'unable or unwilling' to enter into such an arrangement found that patronage suddenly declined (Elder, 1935: 15). Given that reciprocity was, Elder claimed, usually a 'sales tool of the powerful', it left the less influential firm at a 'competitive disadvantage'. Elder's view is certainly plausible, but it remained extremely contested how accurate it was, and how far it was simply an excuse that small business owners invoked for their inability to compete against large concerns in an extremely competitive marketplace (see Elder, 1935: 59, 79–81, 86, 130–7, 161; Kaapcke, 1967: 567–8; Knauth, 1956: 59–62; Lester, 1935: 111–18; Lewis, 1938: 313, 1940: 289; Palamountain, 1955: 2; Stocking, 1961: 23, n.16).

Lewis (1938) was more reticent than most to critique reciprocity. 'If it is true', Lewis said, 'that the larger companies do use their buying power as a club to get orders, the smaller firms are obviously at a real disadvantage' (Lewis, 1938: 312). By contrast, Lewis highlighted how it was not only small businesses negatively affected by reciprocity. He draws on the example of a vice president of a 'very large' company who recalled that: 'Frankly we have been forced to use reciprocity due to the pressure that has been placed upon reciprocal purchases by some of our competitors' (Lewis, 1938: 313). Expanding on a related issue, a company president declared that

We are not at all in favor of reciprocity as a sales policy and kept absolutely away from it until two years ago and were then forced to it by the fact that many companies were using it so extensively and in many cases with very little tact. I refer particularly to the heavy industries. We were exposed and we retaliated. (Lewis, 1938: 313)

Extending the critical reception that reciprocal buying received from some quarters still further, a bulletin issued by the National Association of Purchasing Agents defined reciprocity as 'the name given to that sinister, coercive force used by one selling organization against a prospective customer to gain business from the latter based on the seller's ability to buy from the prospective customer and not necessarily on the facts as they may exist in a purchase negotiation' (Larrabee, 1935: 7). The comment by Larrabee (1935) hints at some of the issues that were



considered problematic by early writers, the buying public and government, who saw reciprocity as inconsistent with a free enterprise ethic and 'consciously or unconsciously, as being somewhat like a bribe' (Ammer, 1962: 121; cf. Corey, 1962: 464). These issues came to a head in the 1930s in a number of cases where companies engaged in 'blatantly anticompetitive reciprocity' (Finney, 1978: 54). The negative effects of reciprocal practices between firms on marketplace efficiency were, as we shall see, becoming so obvious that it could no longer be ignored by the government or legal establishment.

Organizational complacency

With the growth in 'extra-market transactions' and the gradual concretization of inter-firm relationships, scholars critical of reciprocity commented that these 'guaranteed markets' and close relationships essentially militated against 'product improvements', price reductions, efficient delivery and so on (Weigand, 1973: 47; cf. Barton, 1966: 617). In other words, reciprocity encouraged organizational complacency. It was declared that because these inter-organizational relationships were largely shielded from market pressures that product and service quality would suffer (Ammer, 1962; Weigand, 1973). Compounding marketplace inefficiency still further, reciprocity was claimed to practically eliminate price competition because suppliers 'who prefer to compete on every basis but price, become even less inclined to lower quotations when they know that business goes not to the lowest bidder but to the customer who is willing to meet his competitors' bid' (Ammer, 1962: 122).

Taking this point further, Ammer (1962) made the case that involvement with reciprocal buying may mean that suppliers devote less attention to the quality and consistency of their own products and services. This was because the purchasing company was inclined to make allowances for manufacturing quality, product performance and so forth, in view of the fact that the supplier is a customer. Ammer recognizes that this is certainly contingent on the structure of the market concerned (i.e. were there other suppliers available?) (see Moyer, 1970: 48) or, for that matter, on whether an organization followed the style of reciprocity adopted by the Aimesbury Company, selecting products on the basis of 'price, quality, and service' criteria (HCS, 1924).

So, to summarize the terrain covered so far, when the price, quality and service of a present or prospective customer's product were equal to that of non-customers (unless the customer had strategic value to the company), reciprocal trading was likely to be used. If these factors were not equal, reciprocal buying was not frequently used (Farmer, 1960; HCS, 1924; Lewis, 1938; Moyer, 1970; Stocking and Mueller, 1957). But this supposition is conditional upon a relatively naïve conception of marketplace power relations (Ammer, 1962; Moyer, 1970; Weigand, 1973) – an assumption that was called into question by the marketing and legal establishment.



Anticompetitive reciprocity⁴

Perhaps the most prominent cases that illustrate the public and government concern of the 1930s are those of the Waugh Equipment Company and Mechanical Manufacturing Company, which related to issues arising from their acquisition of other concerns that provided reciprocal leverage. Paralleling each other, in the first case, the officials of Armour and Company and in the second, those of Swift and Company (both of these were 'meat packing' companies), obtained subsequent control of railway equipment providers (Moyer, 1970: 49).

In order to influence the railroads that served the two 'meat packing' companies, Waugh and Mechanical exerted pressure on the railroads, by asserting that Armour and Swift would 'reroute their shipments', if the railroads failed to engage in reciprocal exchanges by buying the products manufactured by Waugh and Mechanical. Such strong arm practices were so lucrative that 'the equipment company increased its market share from 1% to over 1/3 of industry sales within a year' (Moyer, 1970: 49; see Knauth, 1956: 71, 156–7). It is this use of purchasing power to develop market share, while denying other competitors equal opportunity to do the same, that the Federal Trade Commission (FTC) refused to countenance. Adopting a similar strategy to those already mentioned, the Consolidated Food Company case of 1965 illustrated how seriously the appropriate legal bodies treated anticompetitive reciprocity.

What was legally contentious in the Consolidated case was that when Consolidated acquired Gentry Incorporated (an onion- and garlic-related product manufacturer), Consolidated's purchase of Gentry and use of reciprocity rendered 'substantial buying power . . . a weapon for . . . denying competitors less favorably situated access to the market'⁵ (Swanson, 1968: 673). By distorting free and fair competition, Consolidated was accused of making business success contingent on organizational size and power, 'rather than economic efficiency' (Swanson, 1968: 673; see also Finney, 1978: 55). Concluding its investigation into the case, the Supreme Court's position was thus:

We hold at the outset that the 'reciprocity' made possible by such an acquisition is one of the congeries of anticompetitive practices at which the antitrust laws are aimed. The practice results in an irrelevant and alien factor intruding into the choice among competing products, creating at least a priority on the business at equal prices. (Moyer, 1970: 49; see Cavanagh, 2001: 636–7)

Analogous court cases occupied the Supreme Court justices throughout the 1960s (Swanson, 1968). By the early 1970s, however, the view of the government shifted. Reciprocal buying and selling was no longer considered an explicit threat to competition (Cavanagh, 2001: 642). Under the new leadership of Thomas Kauper, the Justice Department's Antitrust Division reviewed its previous decisions on reciprocity. According to Cavanagh (2001: 635), 'Kauper did not view reciprocal dealing as sufficiently pernicious . . . [and] The Antitrust Division [then] ceased initiating cases'. Even though the Antitrust Division did radically modify their view of reciprocity, the perspective of the previous head of the



Antitrust Division, Richard L. McLaren, overrode any changes, remaining at the forefront of the collective consciousness of industry. McLaren said that

Particularly where conducted by big, diversified companies, reciprocity programs substitute buying power considerations for the normal and accepted ways of selling, i.e. on the basis of price, quality and service – with foreclosure effects on smaller or less diversified competitors. We will be looking very hard at reciprocity arrangements; we will be looking at them both as practices standing alone and in merger investigations; we will be considering the potential for reciprocity, as well as evidence of actual use. (McLaren in Moyer, 1970: 53)

McLaren also indicated that any organization that wished to avoid legal scrutiny and censure ‘should not only avoid arm-twisting practices. It should insure that its internal practices with respect to purchases and sales data on specific customers and suppliers are handled so as to preclude, rather than facilitate, systematic reciprocity’ (McLaren in Moyer, 1970: 54).

Irrespective of whether his views were actually those of the Antitrust Division, they carried weight in the business world. Among the business community, the responses to the high profile government investigations of reciprocal trading practices were certainly interesting. Far from totally divesting themselves of all reciprocal arrangements, practitioners adopted a new lexicon to describe inter-firm relations (Finney, 1969; Moyer, 1970) and this semantic shift takes marketing thought, informed by practitioners’ efforts, one step closer to what is now known as RM, via the growth in popularity of a comparatively new formalized management function, known as trade relations management.

The rehabilitation of reciprocity: trade relations

Trade relations had been mentioned in the literature prior to 1960 (e.g. Lewis, 1938; cf. Swanson, 1968: 670), although it was following the Second World War that the discourse around trade relations really became prominent (Cavanagh, 2001; Kaapcke, 1967). Finney (1969), most notably, suggested that trade relations emerged as a function of three factors. The first was a result of the growth in the industrial capacity of the US economy, after its wartime expansion (see Tadajewski, 2009a). This resulted in sales managers chasing the consumer’s dollar, ever more tenaciously. Second, the market structure for many industries ‘reached a new degree of oligopoly’, and as a result “non-price” sales arguments had become very attractive’ (Finney, 1969: 104). Finally, Finney says, the increasing complexity of business organizations, especially their internal divisional structures, demanded more effective intra-organizational communications, all of which made trade relations a valuable organizational function (see Borch, 1958; McKittrick, 1957; Tadajewski, 2009a, 2009b).

More pragmatically, in view of the *public perception* of the turn against reciprocal agreements by the FTC and Supreme Court, companies were ‘publicity-shy about reciprocity’ (Ammer, 1962). In place of reciprocity, greater attention was paid to the role of ‘trade relations’, which was frequently referred to as a semantically reinvented version of reciprocity (Finney, 1969; Swanson, 1968; see also



Cavanagh, 2001: 635). This discursive movement from reciprocity to trade relations can be interpreted as an attempt to rehabilitate reciprocity, so that companies could continue to receive the benefits associated with reciprocal buying, and yet disassociate the work of trade relations from the negative publicity that reciprocity had garnered (Cavanagh, 2001; Dauner, 1967; Farris, 1973, 1981; Kaapcke, 1967; McCreary and Guzzardi, 1965).

This is not to say that there were not those who wished to affirm the beneficial aspects of reciprocity in the face of public criticism. Weigand (1973: 43) was especially vocal in asserting his view that one firm can only have a limited degree of power over another, and he listed several reasons why unequal power relations nevertheless failed to permit one party to solely dictate reciprocal arrangements. In the first place, if a prospective reciprocal partner was not supplying some component essential to the manufacturing process of another, then it was feasible for the latter to refuse to engage in reciprocity. Of course, power relations are important here to some degree, as those in the best position to refuse to engage in reciprocity usually occupied a monopoly position, and were consequently 'assured of their customers' loyalties' (Weigand, 1973: 43). This said, reciprocal relationships were equally inclined to be mediated by an 'ethical condition', that is, a belief that reciprocal relationships should be 'fair' (Weigand, 1973: 45; see also Newman and Berg, 1963: 82). The mere existence of a more powerful partner will not, therefore, fully elucidate why such relations continued (cf. Morgan and Hunt, 1994). In reference to discussions with practitioners, Weigand stated that it was 'common' to hear interviewees using terms like 'fair share' and 'our part of the pie' to describe their reciprocal agreements (Weigand, 1973: 45; cf. Christopher et al., 2002: 142).

By the late 1960s, reciprocity regained popularity (Finney, 1978). Despite this, many executives were cautious when it came to discussing the topic, going so far as to critique 'the term "reciprocity"' (Ammer, 1962: 120). In its place, they substituted 'trade relations'. On the basis of interviews with managers at the time, Ammer (1962) was unable to differentiate the two practices in any substantive fashion, which led him to conclude that the difference was mainly at the level of semantics (Ammer, 1962: 120). One interesting feature of his discussions with managers that Ammer did flag up was 'that "good" companies practice trade relations, while bad companies practice reciprocity' (Ammer, 1962: 120). Nor would managerial reluctance to use the term subside in the near future. In a study conducted by *Fortune* magazine some sixteen years later, Finney remarks how respondents were still unwilling to associate their organizations with reciprocity (Finney, 1978). This sentiment was echoed across the business community. In a survey of 500 managers, 60 percent said they considered themselves involved with trade relations, not reciprocity (see also Koenig et al., 1979).

In response to the disapproval of reciprocity, trade relations managers contended that their function included not only developing inter-firm relations, but also communications and market intelligence gathering. Still, trade relations did share certain characteristics with reciprocity, in that the trade relations manager sought to make certain that those suppliers, who were also customers of the firm, received preferential treatment, especially at the contract bidding stage (Finney,



1969). Thus, trade relations cannot be simply and easily equated with reciprocity. It is this and more. Again, like reciprocity, trade relations departments were generally found in large companies, but led by the 'Director of Trade Relations' or 'Manager of Customer Relations', whose main role was to ensure that all relevant members of the workforce understood the company's position on reciprocity (Mandell, 1960: 34). 'In effect', Moyer asserted, trade relations was 'the commercial intelligence center of a company bringing together at a corporate level all factors for analysis and decision for the best overall long-range interest and profit of a company' (Moyer, 1970: 33).

At the same time, the trade relations department devoted attention to making sure that all organizational functions worked to support each other (i.e. pan-company coordination, see, Christopher et al., 2002), rather than negating the work of other departments (Adams, 1965). With regard to this last role, the trade relations manager and his or her management team arbitrated any disagreements between departments (Adams, 1965). They also performed an identical function between the sales team and the purchasing agents of a prospective relationship partner (Adams, 1965: 28).

As scholars and practitioners alike registered, the growing interdependencies between organizations meant that there was greater demand for staff who could effectively manage a complete range of internal and external relations, managing disagreements across departments, as well as between internal and external groups. In the words of Newman and Berg (1963): 'Every administrator has to maintain [the] continuing cooperation of various firms or groups outside of his enterprise – distributors, suppliers, bankers, regulatory agencies, unions, and the like – as well as guide the cooperative efforts of his own employees. These outsiders provide a flow of goods and services that are essential to the life of the company. At the same time, the company is more or less important to each outsider' (Newman and Berg, 1963: 86).

Nor were these relationships necessarily held together by contractual means (see Cusumano and Takeishi, 1991; Dore, 1983; Macaulay, 1963; Newman and Berg, 1963: 82). Trust and decency, perhaps unsurprisingly, were crucial components of any inter-firm relationship, as one purchasing agent reported to Macaulay (1963: 61):

if something comes up, you get the other man on the telephone and deal with the problem. You don't read legalistic contract clauses at each other if you want to do business again. One doesn't run to lawyers if he wants to stay in business because one must behave decently.

More often than not, the most common method of developing relationship bonds between firms was through 'mere agreement to work together' (Newman and Berg 1963: 82). These relationships were usually informal, unless the benefits proffered by one partner were essential to the operations of the other, when written contracts were sometimes used to formalize the relationship. Nonetheless, as Newman and Berg attested, written contracts had a tendency to become extremely complicated, if they had to cover all possible contingencies likely to arise over the relationship period. They were therefore avoided (Newman, 1963; Newman and Berg, 1963).



Selecting relationship partners

In contrast to a sales orientation, where ‘more is better, every order is a good order, and every customer is a good customer’ (Webster, 1988: 32), Newman and Berg cautioned that relationship partners needed to be selected carefully, so that any relationship was mutually satisfying (Newman and Berg, 1963: 83; see Newman, 1963: 319–20). The overriding concern of the trade relations manager in all of this activity was focused on those elements which were crucial to the long-term organizational objectives that their firm wanted to achieve. In attempting to do this, invariably questions of relationship formation would be posed. Equally importantly, present relations were examined to see whether they remained valuable to the organization, or if it was an appropriate time to consider divestment.

In this vein, the work of Robinson et al. (1967) adds credence to the idea that trade relations, as a business philosophy, can be viewed in a comparable manner to the transaction versus RM continuum that has been much discussed in relation to industrial and consumer goods marketing (e.g. Jackson, 1985a, 1985b). In what is a prescient argument, Robinson et al. (1967) outline a continuum of industrial purchasing philosophies, ranging from a soft purchasing philosophy to a hard purchasing philosophy. Subscription to a soft purchasing philosophy inclined a company to ‘place emphasis on maintaining strong relationships with its suppliers over time, [and] . . . stress “being a good customer,” feel loyal to its suppliers, and take a long-run view of the prices it paid. The cost-price economic aspects of the supplier’s offer would tend to get somewhat less emphasis’ (Robinson et al., 1967: 115).

At the other end of the scale is the ‘hard purchasing orientation’. Those adopting this stance review their purchasing activities on a frequent basis. This means that they stress ‘obtaining the best possible cost-price terms, and the other aspects of the supplier’s offer would be relatively less important, assuming that certain minimum conditions such as performance specifications, delivery dates, or terms of sales were met’ (Robinson et al., 1967: 115–16). Consistent with this, the ‘hard-purchasing company’ will ‘tend to place less emphasis on its relationships with its suppliers and with suppliers’ opinions of the buying company’ (Robinson et al., 1967: 116). This does not necessarily mean that hard-purchasing companies will continually search the marketplace looking for any potential exchange partners, just that ‘their *willingness* to change [suppliers] is greater and they feel less committed to remaining loyal to existing suppliers’ (Robinson et al., 1967: 116; emphasis in original).

Trade relations and information technology

It is fair to say that the growth in popularity of trade relations was reinforced by the greater role that information technology assumed in organizations during the 1960s and 1970s (Finney, 1969, 1978; Lazo, 1964; Swanson, 1968; cf. Webster, 1979: 47). The main value of this technology was, in this connection, that it



enabled organizations to coordinate and disseminate the large quantities of information required by the trade relations department (Bonoma et al., 1977; McCreary and Guzzardi, 1965; Mueller, 2004). This, in itself, could have presented difficulties for inter-organizational relationships, as proponents of RM may well be able to appreciate, as the use of information technology to facilitate customer–supplier relationships could have had the effect that the interrelations between firms became less close, less personal. Scholars writing during the 1960s claimed the reverse actually occurred: ‘that the relationships are actually strengthened’ (Robinson et al., 1967: 140). For the reason that,

the parties must commit themselves to a fairly long-term agreement, each must fully specify his own requirements. The dependence of each party on the other is explicitly recognized. Both gain only if the system operates efficiently so that there is a large area of shared interest . . . Mutual trust and understanding are vital. For these and other reasons, user-supplier relationships generally become stronger. (Robinson et al., 1967: 141)

From this review of the function of the trade relations department, the similarities, as well as the differences, between trade relations and reciprocity can be appreciated, even though they remain relatively indistinct. This, in itself, continued to make organizations and their legal counsel nervous for some considerable time after the high profile court cases discussed above (Kaapecte, 1967). Trade relations departments were, after all, easily amenable to legal scrutiny, given the personnel and IT equipment they required⁶ (Finney, 1978: 55).

With ambiguity surrounding the extent to which companies could legally pursue trade relations practices, corporate legal counsel advised firms to avoid reciprocity and trade relations or, at the minimum, refrain from producing and distributing formal guidelines sketching out company policy on reciprocity (cf. Swanson, 1968: 674; Weigand, 1973: 47). Such cautious views, unsurprisingly, were largely adopted by firms. Accordingly, ‘Trade relations departments disappeared from almost all corporations . . . and the overt use of organized reciprocity diminished greatly . . . the main impetus apparently came from the fear of prosecution’ (Finney, 1978: 55; see also Mueller, 2004: 100).

As one business lawyer proposed: ‘a large diversified corporation should not continue a Trade Relations Department or Trade Relations Manager’ (Kaapecte, 1967: 569). Unusually, Kaapecte (1967) provided a set of guidelines that he recommended the legally cautious company should embrace:

1. No use should be made of a trade relations department or manager to negotiate a sale by referring to the company’s past or contemplated purchases, or to negotiate a purchase in circumstances referring to past or expected sales.
2. Past and possible future sales to a supplier may be considered as one factor in deciding where to place the company’s purchases of goods and services.
3. Marketing executives may consider the company’s purchases for the limited purpose of identifying likely sales prospects among those who are suppliers to the company.
4. Both the placement of purchases and their use to identify sales prospects should be confined to the company’s internal consideration and should not be discussed with or communicated to the other party to a sales or purchase transaction.
5. A company desiring to avoid reciprocal dealing may be confronted by the other party’s insistence on it. In such instances, an effort should be made to eliminate discussion of recip-



rocal dealing from the negotiations. If the other party insists in dealing on a reciprocal basis, I do not believe the seller must throw up his hands and turn the account over to his competitors. So long as an exchange of business is not part of a systematic exploitation of purchasing to promote sales, I would expect that such dealing induced by the other party would not subject a reluctant company to antitrust condemnation.

(Kaapcke, 1967: 570)

Notwithstanding the inherent value in these guidelines, a common response to possible legal challenges went as follows: if any policies related to reciprocity were unwritten, then they were not likely to attract the attention of the FTC and Justice Department. One respondent to a survey about reciprocity gestured to this point (see Ferguson, 1965; Stocking, 1961): 'Until the legal aspects have been clarified, a written statement on reciprocity could be very dangerous' (in Dauner, 1967: 19).

Dauner's survey is important as it indicates that reciprocity and trade relations were not going to disappear completely from business activity. Obviously, managers avoided using the labels 'reciprocity' and 'trade relations' (cf. Upah and Bird, 1980), while still remaining convinced that these were useful practices. Provided that reciprocity was not publically condemned as unethical (cf. Weigand, 1973: 47), a respondent speaking to Dauner stated that it would continue to be 'used extensively. From a legal standpoint, if laws are passed outlawing reciprocity, there is a good chance that the practice will continue under a different name' (Dauner, 1967: 13). Furthermore, the Business Ethics Advisory Council of the US Department of Commerce was not convinced that it was possible to legally circumscribe the use of reciprocity in all industries. Rather, the onus for ensuring that business relationships were within the bounds of legality remained with management. As the Council summarized the issues at hand,

Business enterprises, large and small, have relationships in many directions – with stockholders and other owners, employees, customers, suppliers, government, and the public in general. The traditional emphasis on freedom, competition, and progress in our economic system often brings the varying interests of these groups into conflict, so that many difficult and complex ethical problems can arise in any enterprise. While all relationships of an enterprise to these groups are regulated in some degree of law, compliance with law can only provide a minimum standard of conduct. Beyond legal obligations, the policies and actions of businessmen must be based upon a regard for the proper claims of all affected groups. (Dauner, 1967: 13)

Regardless of the legal confusion surrounding reciprocity and trade relations, firms still wanted to buffer their activities from environmental influences. In their search for 'sustainable trade positions' they followed a train of thought commensurate to that enunciated by Knauth (1948, 1956). Knauth argued that organizations should develop relationships with 'steady customers', since long-term relationships based upon 'a background of many years standing and good will lead to mutual cooperation between manufacturer and distributor' (Knauth, 1948: 85). Knauth realized that this process was time consuming and that this may make the initial costs of dealing with a prospective customer higher than normal. Nevertheless, the benefits of these relations outweighed the costs, especially when market conditions became unfavorable, as when 'demand declines, customers favor old friends' (1948: 85).



Retaining customers was therefore beneficial in the long term. Clearly, the trade relations director had a function to play here, and although Knauth is not actually discussing 'trade relations' specifically, his description of 'an officer with no duty other than to cultivate good will in its broadest sense . . . [who] is a member of charity boards, a leader in civic affairs, [who] arranges dinners for prominent persons or causes . . . [and] throws himself into community drives, attends conventions and straightens out petty snarls' (Knauth, 1948: 67), chimes with the characteristics associated with the trade relations manager (Adams, 1965; McCreary and Guzzardi, 1965; Mandell, 1960).

In the interests of clarity, let us recap the narrative so far. It has been demonstrated that 'business cooperation', 'reciprocity' and 'trade relations' all shared the common thread of buffering an organization against market pressures, sometimes to the detriment of market efficiency (e.g. Weigand, 1973: 47). Certainly, while business people were cautious in using the term reciprocity and distanced themselves from its associated practices, there were vague suggestions that trade relations and reciprocity might continue to be practiced, albeit informally (Finney, 1978). Testament to the validity of these views, one way to limit the effect of the external business environment on a company was by 'domesticating markets' and through the use of 'corporate diplomacy' (Arndt, 1979).

Corporate diplomacy and the return of the trade relations manager

What Arndt (1979) is gesturing toward in his use of the term 'domesticating markets' is where transactions are 'moved inside a company (when for instance buyer and seller actually merge) or inside the boundaries of a group of companies committed to long-term cooperation' (Arndt, 1979: 70). In his theoretical extension of the dyadic paradigm, Arndt examined the interactive nature of 'all exchanges between an organization and its environment (not only relations between personnel in sales and purchasing positions). The approach also focuses on the long-term relationship in which each transaction is embedded (rather than on each individual transaction)' (Arndt, 1979: 72; emphasis in original).

Putting Arndt's work into the historical context in which he was writing, Day and Wensley (1983) tell us that the economic environment was stagnating. They refer to the slower growth of advanced industrial markets and increased competitive pressures from multiple sources (Day and Wensley, 1983), all of which affirmed the importance of a theoretical focus on dyadic interaction and the interdependencies between firms. The connection between this movement toward the theoretical orientation of the Industrial Marketing and Purchasing Group (e.g. Håkansson, 1982) and those affiliated with services marketing (e.g. Berry, 1983) and reciprocity and trade relations can be made in the following manner.

Arndt (1979) suggests that he is basing his work on three themes: 'reciprocities, interdependencies and interactions' or what can be called the conceptual core of work developed in the trade relations literature and in the debates surrounding reciprocity (Arndt, 1979: 72; Bonoma et al., 1977). What Arndt seems to have



done, totally without knowing it, is revive and semantically remarket trade relations in his argument that the 'personal selling function' needed 'upgrading' (Arndt, 1979: 73). Rather than personal selling, Arndt (1979) proposed that greater 'corporate diplomacy' would be demanded from corporations that sought to operate as part of a domesticated market (see also Guillet de Monthoux, 1975 for a similar discussion regarding 'diplomatic marriage brokers').

That trade relations and certain features of reciprocal trading continued to be used by the business community is to be expected given the environmental trends Day and Wensley (1983) outlined. While the work of Berry (1983) in first explicitly discussing RM should be recognized, for our purposes Levitt's (1983) invocation of the marriage metaphor in connection with exchange relationships is more relevant here (see Fischer and Bristor, 1994; Guillet de Monthoux, 1975; Tadajewski, 2008; Tynan, 1997).

In his paper, Levitt (1983) further expanded upon themes associated with reciprocity, trade relations and long-term relationships, when he discussed the role of the Vice President of Business Relations at Gillette North America. The duties of this role included the 'cultivation' and maintenance of 'relationships' with Gillette's major customers and distributors. This was accomplished 'via a vast array of ceremonial activities ranging from entertainment at trade association conventions to [the] organization of special events for major accounts in connection with the annual All-Star baseball game, the World Series, the Superbowl and the NCAA playoffs. These activities establish bonds and affirm reciprocal obligations and benefits' (Levitt, 1983: 92).

What Levitt's (1983) example of the business relationship manager serves to illustrate is that reciprocity and trade relations have not completely disappeared from business practice or intellectual debate. The semantic signifiers may have changed, but many of the underlying values have remained consonant (Finney, 1978). What seems to be obvious is that broadly speaking reciprocity was translated into trade relations in most cases, even while some commentators continued to use the lexicon of reciprocity, and that trade relations with its reliance on computer technology, intelligence gathering, key account management has been translated, in turn, into RM (Finney, 1978). This is a view indirectly confirmed by Finney (1978). He remarked:

If a multidivisional corporation is using reciprocity leveraged in a manner not available to competitors, it is my belief that it is doing so in . . . a [social] setting. It is logical that all buy-sell relationships with a key account would be fully evaluated while learning all possible about the account. In social gatherings . . . reciprocity discussions would be extraordinarily safe, a far cry from the proscribed formal, organized trade relations of ten years ago. (Finney, 1978: 57; see also Newman and Berg, 1963: 86)

Finney's (1978) view that reciprocal arrangements still persist in theory *and* practice are further supported by Reichard's (1985) account of his firm's attempts at relationship cultivation and affirmation. He describes the social events that his company, Ball Corporation, organized in an attempt to 'woo' potential customers:

Our guests arrive in time for cocktails and dinner at our corporate guest house, which is a renovated mansion built by one of the founding Ball brothers. We invite all our top corporate



and group executives and their spouses to come and honor our guests . . . Anyone from our top management who is in town attends these affairs, because we have a corporate commitment to marketing and because we want to get to know our customers and prospects well. In addition, our executives learn from the visitors' observations and reactions. Since we are truly customer-driven, this interchange is vital. (Reichard, 1985: 130)

In view of these historical connections, reciprocity and trade relations have, I maintain, subsequently shifted in response to changes in the political, economic, social, technological and legal environment and ultimately formed the historical foundation for RM. Of course, if we shift back to the conventionally sanctioned history of RM, this apparent move away from a solely transaction-oriented approach to RM was also predicated on a whole range of supplementary factors. These have been adequately outlined elsewhere (e.g. O'Malley et al., 2008: 172, 178; Varman and Costa, 2008: 143) but included the expansion of the service economy, improvements in IT that made computerized customer relationship management strategies viable, along with the (re)emergence of 'strategic network competition' (Hunt et al., 2006) – a strategy that I see as a further development of more positive, 'friendship reciprocity' (Finney, 1969, 1978).

Conclusion

Reciprocity and trade relations were driven by practitioners and academics who were influenced by government regulators and the legal complexities of their day, in the belief that it would offer increased profitability through customer retention and the accumulation of goodwill. Central to trade relations and to RM is a desire to establish, develop and maintain relationships with customers and other stakeholder groups to the theoretical benefit of all participants.

These relationships were usually held together by normative, as opposed to contractual methods, and some degree of reciprocity and mutual benefit were central elements of relationship maintenance and affirmation. Furthermore, even though the development of the debates surrounding reciprocity and trade relations oscillated between positive and negative poles, practitioners did appear to appreciate the value of inter-firm goodwill, along with what was called 'the give-and-take needed in business' (Macauley, 1963: 61).

As with more recent calls for firms to develop and maintain mutually beneficial relationships with their customers, while constantly assessing the value of these relationships vis-à-vis corporate marketing objectives, reciprocity, trade relations, diplomatic marriage brokers (Guillet de Monthoux, 1975), corporate diplomacy (Arndt, 1979), business relations (Levitt, 1983) and RM thought are all – to varying degrees – inflected by analogies with personal relationships (Dwyer et al., 1987; Levitt, 1983; O'Malley and Tynan, 1999; Reichard, 1985). For O'Malley and Tynan (1999), this position is most obviously demarcated from so-called 'warfare' metaphors which highlight 'conquest' and 'self-interest' (Desmond, 1997; Fischer and Bristol, 1994; O'Malley and Tynan, 1999; O'Malley et al., 2008).

So, where the transaction approach embodied the assumptions of organiza-



tional atomism, with each transaction assumed to be a discrete entity with no history and no gesture made to future interaction (cf. Alderson, 1965: 37, 41, 52, 58, 61), the reciprocity, trade relations and more recent RM literatures, all contain an element of concern for exchange partners. Neither side of the relationship was, by and large, expected to incur long term losses, at the same time as the other participant reaped disproportionate benefits. 'Fair' outcomes and mutual benefit were *largely* the order of the day.

What seems interesting is that recent attempts to 'deconstruct' RM theory (Kasabov, 2007) due to its apparent bias toward the more positive aspects of relationship development, rather than the darkside of relationships, including the power dependencies and costs of unequal exchanges, is that such accounts do not differ markedly from those written in the 1930s. As Håkansson (2006: 148–9) puts it, 'networks have some features that produce negative effects. The networks are manipulative, nondemocratic, and political in terms of serving specific interests. The reason for this is that a network of companies has a specific structure that clearly favors some over others'. The impact of this power imbalance is likely to be felt in terms of larger, more powerful companies possibly suppressing the ability of new competitors to enter a market (Wilkinson, 2006). And as I noted in the main body of this paper, early marketing scholars such as Reed (1936) were quick to notice similar restrictions on what Wilkinson (2006: 113) terms the 'evolutionary conditions and pathways' of business and marketplace development.

From this examination of the history of marketing theory, it is perfectly reasonable to conclude that the work of earlier marketing scholars, especially those publishing in the late 1920s, early 1930s, registered quite clearly the power relations that suffuse the marketplace. They devoted attention to the benefits of forming long-term relationships, acknowledged the costs, and in bringing their work back to the attention of present day marketing academics have enabled us to revise the history of RM.

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Notes

1. I am using the word 'Foundation' ironically. In his discussion of genealogy Foucault argues that the genealogist 'will cultivate the details and accidents that accompany every beginning' (Foucault, 1984: 144). He continues, 'The search for descent is not the erecting of foundations: on the contrary, it disturbs what was previously thought immobile, it fragments what was thought unified; it shows the heterogeneity of what was imagined consistent with itself' (Foucault, 1984: 147). In this context, an 'effective' history 'will uproot its traditional foundations and relentlessly disrupt its pretended continuity' (Foucault, 1984: 154). I like to think of this project, and those related to it, in these terms.
2. Since the development of parameter theory has been discussed in relation to RM



comprehensively by numerous authors, I do not feature this debate in this paper. Likewise, this account largely bypasses the contributions of the IMP Group in favor of highlighting a previously ignored area of predominantly US scholarship that I argue is an important historical axis of RM discourse in marketing. I do this because, in my view, it adds balance to the currently available historical studies on the development of RM. Given space constraints I also do not discuss the precursors to reciprocity in the political economy literature (see Stocking and Mueller, 1957). Nor does it trace the full history of reciprocity, for as Finney (1969: 98) notes, 'friendship reciprocity' is 'Probably as old as exchange itself'.

3. Apologies for the gendered language.
4. This section is closely based on Moyer's (1970), Finney's (1978) and Swanson's (1968: 675) summaries of the court cases (see Moyer, 1970: 49). Moyer also summarizes a variety of other cases not examined in this paper. See also Weigand (1973).
5. This is actually Swanson citing Federal Trade Commissioner Elman's comments on the case (Swanson, 1968: 673).
6. This said, the mere possession of a trade relations department was not illegal (Finney, 1978: 55).

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