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Business marketing and the ethics of gift giving

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Abstract

This paper focuses on the common though ethically problematic practice of suppliers providing gifts and other benefits to buyers in a business-to-business context. It is argued that contrary to the claim that the boundary between acceptable and unacceptable practices is blurred when there is a focus on developing mutually beneficial, long-term relationships between suppliers and their business customers, there is a straightforward decision making procedure that can be applied. Central to this decision making procedure is the concept of a conflict of interest. While all organisations have very good reasons to address the issue of gifts and benefits, in a relationship marketing context there is even more reason to do so.

Keywords: Business marketing; Conflict of interest; Ethics; Gift giving; Relationship marketing

1. Introduction

Gifts and other benefits are often provided in a business-to-business context as one way to develop the relationship between suppliers and their business customers yet, at the same time, giving and receiving gifts and benefits is cited as one of the most ethically problematic issues in supply management (or purchasing) and sales (Cooper, Frank, & Kemp, 1997; Fritzsche, 2005; Kitson & Campbell, 1996; Preuss, 2000; Turner, Taylor, & Hartley, 1994). While the provision of gifts and benefits is not restricted to buyers (or purchasing agents), those involved in supply management will inevitably need to make judgments about whether or not it would be ethical for them to accept a particular gift or benefit. Moreover, since the purchasing function is boundary-spanning and can influence the way a firm is regarded, ethical behaviour in purchasing is especially important (Kitson & Campbell, 1996; Mellahi & Wood, 2003). Ferrel and Gresham (1985) make the further point that the sales and purchasing functions may be under greater pressure than internal functions to act unethically. In supply chain management there is increasing emphasis being placed on ethical issues, however, insufficient attention has been paid to the various partners in the supply chain, especially purchasing and sales (Carter, 2000; Cooper et al., 1997; Ferrel & Gresham, 1985; Mellahi & Wood, 2003). This paper focuses on the ethics of the common practice of suppliers giving gifts and benefits to buyers in Australia and similar contexts.

While gifts and benefits provided to buyers could take many forms they include promotional items such as diaries, pens, key rings, coffee mugs and items of clothing through to bottles of wine or spirits, meals, entertainment, tickets to sporting or cultural events, discounts, services, trips and money. The purpose of this paper is not to identify a list of 'ethical' and 'unethical' gifts and benefits, rather, the purpose is to identify a way to evaluate specific instances of providing a gift or a benefit in order to decide whether, in that particular situation, the gift or benefit gives rise to a conflict of interest for the recipient. If it does, then it is unethical for the buyer to accept it and unethical for the salesperson to give it.

In the following discussion reference is made to 'relationship marketing', however, it is important to note that the identification of relationship marketing as a new marketing paradigm is contested. It has been argued that this so-called 'new' marketing concept does no more than make explicit what marketers have known and practiced since the early 1900s (Petrof, 1997). While the logic of relationship marketing is not contentious, what is disputed is the claim that this approach dates only from the 1980s (Petrof, 1997). The mutual dependency of buyers and sellers has long been recognized as

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a key characteristic of business marketing (Ford, 1996; Hayes, Jenster, & Aaby, 1996). Relationship marketing has been identified as a central tenet in the business-to-business literature with many researchers claiming that successful firms develop long-term, mutually supportive relationships with their buyers (Tellefsen & Thomas, 2005). For the purposes of this paper, it is not necessary to settle the debate about whether or not relationship marketing is a new marketing concept, especially in a business-to-business context. The literature relating to relationship marketing is cited because it makes explicit the characteristics associated with an approach that aims to develop mutually beneficial, long-term relationships between suppliers and buyers. The term 'relationship marketing' is used simply to identify this marketing approach. A further point that needs to be clarified is that firms are involved in networks of relationships, however, this paper is concerned only with the relationship between the purchasing and sales functions.

2. Identifying the problem

Providing gifts, meals and entertainment is widespread and is one of the most widely cited ethical issues in purchasing (Cooper et al., 1997; Fritzsche, 2005; Kitson & Campbell, 1996; Mellahi & Wood, 2003; Preuss, 2000; Turner et al., 1994). The *Principles and Standards of Ethical Supply Management Conduct* of the US's Institute for Supply Management contains two relevant standards:

1. Avoid any personal, business or professional activity that would create a conflict between personal interests and the interests of the employer.
2. Avoid soliciting or accepting money, loans, credits, or preferential discounts, and the acceptance of gifts, entertainment, favors, or services from present or potential suppliers that might influence, or appear to influence, supply management decisions (2002, p. 1).

The Guidelines accompanying these principles and standards state that a perceived impropriety can have the same consequences as an actual impropriety and any action that either diminishes, or appears to diminish, open and fair treatment of suppliers should be avoided. Further, actions that compromise, or could be seen to compromise, the best interests of employers are prohibited. In relation to conflicts of interest, the advice is even when a conflict may not technically exist, the appearance of conflict must be avoided.

Giving and receiving gifts and benefits 'can be important and respectable ways of building and maintaining legitimate business relationships' (Duke Energy, 2004, p. 14), however, it has been claimed that a marketing approach aimed at promoting long-term cooperation and mutual benefit can blur the boundary between acceptable and unacceptable practices.

> [This] buyer–supplier paradigm makes preferential treatment not only acceptable but also desirable. This paradigm makes it very difficult for firms to distinguish between actions, attitudes and behaviours aiming at strengthening the relationship—which are desirable—or putting pressure on the buying department to reciprocate or give preferential treatments (Mellahi & Wood, 2003, p. 121).

It is argued that this claim is unfounded. Its plausibility comes, first, from conflating two propositions: (1) that behaviours, attitudes and actions aimed at enhancing the relationship between the supplying and buying organisations are acceptable and, (2) that behaviours, attitudes and actions aimed at enhancing the relationship between individual salespeople and buyers are acceptable. When this distinction is made, any perceived blurring disappears. A second problem is an appeal to industry practice to justify providing gifts and benefits to buyers. Just because something is industry practice, however, does not make it right.

Central to the evaluation of particular instances of providing gifts and benefits is the concept of a conflict of interest. A conflict of interest exists if a gift or benefit could lead the recipient to sacrifice the interests of his or her employer for personal gain (DesJardins & McCall, 2000; Shaw & Barry, 2004; Trevino & Nelson, 1999). A marketing approach that aims to promote a long-term, mutually beneficial relationship between a supplier and its business customers adds another dimension to the problem of conflicts of interest. A marketing approach with a focus on building relationships is characterized by trust, commitment, collaboration, a long-term perspective and mutual benefit (Grönroos, 2000; Gummessen, 2002; Quester, McGuiggan, Perreault, & McCarthy, 2004). If giving and receiving a gift or benefit results in a conflict of interest, then the relationship that has developed between the two businesses is undermined. When a conflict of interest exists the basis for the relationship is harmed.

It is concluded that an approach to marketing based on developing and maintaining a mutually beneficial relationship between a supplier and its business customers is inconsistent with giving and receiving gifts and benefits that create a conflict of interest for the recipient. It is wrong for the buyer to accept such a gift or benefit and it is wrong for the salesperson to give it, irrespective of industry practice. All organisations have very good reasons to make their expectations of employees explicit. When the firms are concerned to maintain long-term, mutually beneficial relationships, there is even more at stake.

3. Building relationships

According to Grönroos, many firms adopt a service perspective in an attempt to gain competitive advantage. 'A *service perspective* means that the role of service components in customer relationships is seen as strategic.... What creates a sustainable competitive advantage is the development of every element of the customer relationship' (2000, p. 6 italics in original). Any firm that adopts this perspective necessarily has a focus on building relationships with their stakeholders, including customers, suppliers, distributors, etc. Relationship marketers recognize that competitive advantage can be gained