Gifts and Benefits in Business-to-Business Marketing: An Ethical Analysis

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Refereed Paper
(Ethics and Corporate Governance Stream)

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ABSTRACT

This paper focuses on the common though ethically problematic practice of providing gifts and benefits in a business-to-business in order to develop a mutually beneficial relationship between the buying and selling organisations. It is argued that there is a straightforward way to distinguish between acceptable and unacceptable practices based on the concept of a conflict of interest. It is concluded that a relationship marketing approach is inconsistent both with giving and receiving gifts and benefits that create a conflict of interest for the recipient. In these situations, the mutually beneficial relationship between the firms is undermined. It is concluded that much of the current practice of providing gifts and benefits cannot be ethically justified.

Keywords: conflict of interest, gifts and benefits, relationship marketing

INTRODUCTION

Gifts and 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 purchasing (or supply management) and sales (Cooper et al., 1997; Fritzsche, 2005; Kitson & Campbell, 1996). In this paper the ethics of the common practice of suppliers giving gifts and benefits to buyers (or purchasing agents) in Australia and similar contexts is considered.

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 relationship marketing context adds another dimension to the problem of conflicts of interest. Relationship marketing is characterised by trust, commitment, collaboration, a long-term perspective and mutual benefit (Grönroos, 2000; Gummessen, 2002; Quester et al., 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.

It is concluded that a relationship marketing approach is inconsistent with giving and receiving gifts and benefits that create a conflict of interest for the recipient. It is wrong for the purchasing agent 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 develop and enforce company codes of conduct and policies that make explicit what can be accepted and given. When the organisations are in a relationship marketing context, there is even more at stake.

GIFTS, BRIBES AND CONFLICTS OF INTEREST

It is uncontroversial to claim that the practice of giving gifts and benefits to buyers can, in some instances, be ethically problematic. We now turn to a consideration of why this is so. Much of the literature focuses on bribery and there are two common approaches. Some authors define bribery in such a way that if something is described as bribery it is necessarily unethical. Fritzsche (2005), for example, claims that if a gift is given with the intention to influence, then it is a bribe and bribery is an unethical practice. Similarly, James claims that ‘since bribery cannot be justified, the challenge is to determine precisely when a particular payment constitutes a bribe and when it does not' (2002:200). Other authors provide a scale of bribery going from low value gifts at one end to payments of large sums of money at the other. These authors then go on to discuss which forms of bribery are acceptable (see, for example, Fisher & Lovell, 2003). Shaw and Barry point out that a bribe can be in the form of 'money, gifts, entertainment, or preferential treatment' (2004:394). They also claim that while business gifts and entertainment are familiar in the world of business, both practices can 'border on bribery, but knowing where to draw the line is not always easy' (2004:397).

Rather than becoming bogged down in definitions or scales of bribery in order to make a distinction between acceptable and unacceptable examples of gifts and benefits it is more helpful to focus directly on what it is that distinguishes the unethical from the unproblematic examples. I will argue that the reason for judging particular instances of accepting gifts and benefits unethical, and the underpinning justification for policies relating to gifts and benefits, is that it results in, or could reasonably be expected to result in, a conflict of interest for the recipient (Fritzsche, 2005; McEwan, 2001; Shaw & Barry, 2004; Velasquez, 2002). According to Boatright (2003), there are four kinds of conflicts of interest involving: (1) the exercise of biased judgement, (2) engaging in direct competition with the employer, (3) misusing a position and (4) violating confidentiality. The conflict of interest that potentially arises when a buyer or purchasing agent accepts a gift or benefit from a supplier involves exercising biased judgement.

A conflict of interest arises when there is a real or potential conflict between the private interests of an employee and the interests of their employer that could plausibly lead the employee to make decisions contrary to best interests of their employer (DesJardins & McCall, 2000; Shaw & Barry, 2004; Trevino & Nelson, 1999; Velasquez, 2002). Shaw and Barry conclude that 'the ultimate moral judgment hinges largely on whether an objective party could reasonably suspect that the gift or entertainment might lead the recipient to sacrifice the interest of the firm for his personal gain' (2004:398-9). Likewise, Trevino and Nelson claim '[t]he appearance of a conflict of interest – when a third party could think your judgment has been compromised – is generally considered to be just as damaging as an actual conflict' (1999:60). In the following discussion I have adopted the view that a conflict of interest exists if an objective party could reasonably suspect that an employee's judgement has been compromised. In the next section I briefly characterise business-to-business marketing before turning to the issue of gifts and benefits in more detail.

RELATIONSHIP MARKETING AND PURCHASING

Relationship marketing has been identified as a central tenet in the business-to-business literature (Tellefsen & Thomas, 2005). Relationship marketing emerged from reconceptualising marketing exchanges from a transactional perspective to viewing them as on-going, collaborative relationships. In industrial marketing there has been a focus on relationships since the 1970s (Möller & Halinen, 2000; Smith & Higgins, 2000). Relationship marketers recognise that competitive advantage can be gained by providing a variety of services in addition to the core product (Grönroos, 2000). While relationship marketing is a contested concept with no single theoretical framework (Möller & Halinen, 2000; Varley, 2002), there are common themes that can be identified. Relationship marketing aims 'to establish, maintain and enhance relationships with customers (and other parties) so that the objectives…of all parties are met. This is achieved through a mutual exchange and fulfilment of promises' (Grönroos, 2000:26). While it is recognised that organisations are involved in networks of relationships (see, for example, Grönroos, 2000; Gummessen, 2002; Leek et al., 2004) the focus of this paper is the relationship between suppliers and business customers.

It has been claimed that the best buyer-seller relationships are based on trust with both parties having a commitment to the relationship that involves collaboration and a long term perspective resulting in mutual benefit (see, for example, Grönroos, 2000; Gummessen, 2002; Quester et al., 2004). One immediate complication is that organisations *per se* do not form relationships. A firm may decide to adopt a service perspective which will be promoted through relationship marketing, but it will be *individuals* acting on behalf of their employers (suppliers) who will have dealings with individuals from other firms (customers) who are also acting as agents for their employers. Over time it might correctly be claimed that the two organisations have developed a certain kind of relationship, but the success of the relationship between the organisations will depend, in large part, on the success of the relationship between the individuals concerned. Unsurprisingly, a social relationship may develop between a purchasing agent and salesperson as a result of the business relationship. It will be argued that one problem with existing literature dealing with gift-giving in a relationship marketing context is that it conflates the relationship between the organisations and the relationship between individuals representing the organisations.

While the practice of providing gifts and benefits is widespread, this practice is commonly cited as an ethical concern in supply management (Cooper et al., 1997; Fritzsche, 2005; Kitson & Campbell, 1996). Mellahi and Wood (2003:122) claim that 'because of the increased emphasis on building and maintaining long-term cooperative relationships, an ethical purchasing function is imperative for the development of a relationship based on mutual trust'. However, they claim that the relationship marketing approach can make it difficult to draw a line between acceptable behaviours, attitudes and actions aimed at enhancing business relationships, and unacceptable practices that put pressure on buyers to reciprocate by placing an order or by giving favoured treatment. I will argue that, contrary to Mellahi and Wood's claim that the boundary between acceptable and unacceptable practices becomes blurred, there is a straightforward way to distinguish ethically problematic instances of giving and receiving gifts and benefits from unproblematic ones.

CONFLICTS OF INTEREST AND RELATIONSHIP MARKETING

It is now possible to formulate an answer to the question: 'When is it unethical for purchasing agents to accept gifts or benefits?' If a gift or benefit gives rise to a conflict of interest for the recipient, then it was wrong to accept it. When purchasing agents accept gifts or benefits that create a conflict of interest their judgement is compromised and they may not be acting solely in the best interests of their employers when they make purchasing decisions (in violation of their employment duties). This is a general conclusion that is relevant to all examples of receiving gifts and benefits in a business context.

In a relationship marketing context, however, there is a further step in the analysis. If accepting a gift or benefit does result in a conflict of interest, then the relationship between the two businesses is also compromised. In order to appreciate this point recall that relationship marketing is characterised by trust, commitment, collaboration, a long-term perspective and mutual benefit. When a buyer's decision making is compromised, the trust and commitment built up over time between the two firms is broken and the relationship is threatened.

The plausibility of the claim that relationship marketing blurs the boundary between acceptable and unacceptable practices results from a confusion. These discussions have conflated two very different propositions. First, that relationship marketing supports practices that strengthen the relationship between the buying and suppling *organisations* and, second, relationship marketing supports practices that strengthen the relationship between *purchasing agent and salesperson.* Part of the reason this may have occurred could be the terminology used. When the terms 'buyer' and 'seller/supplier' are used they are ambiguous. Do they refer to individuals (acting as agents for organisations) or do they refer to organisations? When the implications of this distinction are made clear, the claimed blurring of acceptable and unacceptable practices disappears.

As part of their relationship marketing strategy, a supplier may provide services or benefits to their business customers such as computer software to facilitate direct ordering, training for purchasing staff, storage systems for stock provided by them and so on. It might be claimed that these 'gifts and benefits' are ethically problematic since they are clearly intended to influence the business customer's buying decisions. This is not a plausible claim. The provision of these benefits needs to be viewed in a broader context. Their purpose is to enhance the relationship between the two firms and create mutual benefit.

It is true that a relationship marketing approach supports preferential treatment. Preference will be given to the supplier with whom there is an established relationship or, in the case of special offers, for example, the supplier will give preference to the business customer with whom there is an established relationship. However, the justification for the partiality is mutual benefit. Through experience over time, the buying organisation has found the supplier to be dependable and cooperative, offering competitive prices, good service and so on. The supplier has, through experience over time, found the customer to be loyal, cooperative, paying accounts on time and so on. From the buyer's perspective it is more efficient to deal with trusted suppliers rather than negotiate every order with multiple potential suppliers. From the seller's perspective, the old adage that it is better to keep an existing customer than to have to attract a new one holds. Mutually beneficial transactions that occur over time strengthen the relationship between the buying and selling organisations and the interests of both organisations are served. When preferential treatment is given both businesses benefit, there is no conflict of interest – a win-win situation. There is no blurring of the boundary between acceptable and unacceptable practices.

Contrast this with a situation in which a purchasing agent accepts a gift or benefit from a salesperson who represents a supplier with whom the buying organisation has a long-standing relationship. It might be claimed that this is one way to strengthen the relationship between the two individuals which will, in turn, strengthen the relationship between the two organisations. It is necessary to distinguish two different kinds of gifts and benefits that might be involved. The first could correctly be claimed to serve the purpose intended and would involve low-cost gifts such as promotional merchandise, a low-cost working lunch etc. As long as purchasing agents do not violate their employers' guidelines, accepting (and providing) these gifts and benefits is unproblematic. If the relationship between purchasing agent and salesperson is strengthened as a result, then the benefit will flow on to the two organisations. (It is beyond the scope of this paper to consider whether these gifts or benefits do, in fact, strengthen the relationship between the two organisations.) Gifts and benefits that fit into this category do not blur the boundary between acceptable and unacceptable behaviour. Purchasing decisions will not be distorted by the gifts or benefits because they are not substantial enough to create a conflict of interest and the relationship between the two organisations is at least potentially strengthened.

A second group of gifts and benefits are of higher value and are not simply promotional merchandise or work-related low-cost entertainment. There are many examples including gifts of alcohol, tickets to sporting and cultural events, expensive dining, trips and so on. An evaluation of their ethical status turns on whether or not the recipient is placed in a conflict of interest situation if he or she accepts. As pointed out above, a conflict of interest exists if an objective party could reasonably suspect that an employee's judgement has been compromised. If accepting would give rise to a conflict of interest, then accepting the gift or benefit would be wrong even if the purchasing agent's employer does not have a specific policy relating to gifts and benefits. This is because an employee has a duty to act in the best interests of his or her employer and having a conflict of interest violates this duty. If the gift or benefit is such that it gives rise to a conflict of interest for the recipient, then the reason for giving this supplier preferential treatment is no longer based on the best interests of the employer. Rather, it is the interests of the purchasing agent that determine the buying decision. While the decision may not (in a particular situation) be contrary to the interests of the buying organisation, this is merely coincidence. When a purchasing agent has a conflict of interest, his or her employer's interests are not primary.

A related problem unique to a relationship marketing context is that a conflict of interest also undermines the relationship between the two firms. The reason a purchasing agent gives preferential treatment to the supplying organisation is no longer grounded in the mutually beneficial relationship the two firms have developed, but rather in self-interest. The trust and commitment that has been built up over time between the two organisations has been broken. It cannot be claimed that these kinds of gifts and benefits strengthen the relationship between the two individuals which will, in turn, strengthen the relationship between the two organisations. The behaviour of the purchasing agent has jeopardised the existing long-term mutually beneficial relationship and the closer the relationship between the two firms, the more damage a conflict of interest can cause.

Analogously, if a salesperson provided a gift or benefit in order to influence the buying decisions of a purchasing agent, then it was wrong for them to do so (Fisher & Lovell, 2003; Fritzsche, 2005). DesJardins and McCall claim it is always problematic to 'entice another party to either violate his duties and/or extend special treatment' (2000:494). McEwan (2001) points out that conflicts of interest are inconsistent with efficiency but more importantly it is intrinsically wrong to manipulate people so they neglect their duties. Boatright maintains it is wrong to induce someone to violate their duty – 'corrupting others is as wrong as being corrupt oneself' (2003:428). Of course, the salesperson may claim that this was not the intention; all he or she was trying to do was strengthen the relationship with the purchasing agent. When considering the behaviour of a purchasing agent, the test was whether accepting a gift or benefit gave rise to a conflict of interest. If it did then it was wrong to accept. Similarly, if providing a gift or benefit gives rise to a conflict of interest, it was wrong for the salesperson to give it. These gifts and benefits do not enhance the trust and commitment that leads to a successful long-term business relationship, rather, they undermine the foundation upon which the relationship is built and so cannot be justified. There is no blurring of the boundary between acceptable and unacceptable behaviour.

This discussion raises the question of why a supplier who has a good relationship with a business customer would support the practice of providing gifts and benefits to purchasing agents that could result in a conflict of interest. On the one hand, it might be the case that they don't. The salesperson may have been acting without the knowledge of his or her employer. If this is the situation it might be appropriate to criticise the supplier for not having policies or processes in place to prevent behaviour that could undermine the relationships they have built up with business customers, but it would be the salesperson who acted unethically. If the supplying organisation did support such behaviour, on the other hand, then it would be reasonable to question their commitment to their relationships with business customers. It is inconsistent to work towards a long-term relationship grounded in trust, collaboration and commitment that results in mutual benefit to both businesses and, at the same time, undermine those very aspects of the relationship that produce mutual benefit by allowing or even encouraging their salespeople to influence the purchasing decisions of individual buyers by providing gifts and benefits. If a supplier does engage in this practice, then a review is urgently required. Would they want the mutually beneficial relationship that has been built up over time to depend on a purchasing agent who has demonstrated a willingness to be influenced? It is likely that if one supplier can influence the buying decisions of the purchasing agent, he or she could just as easily be influenced by another supplier who offers a more attractive gift or benefit. It is implausible to claim that gifts or benefits that compromise the objectivity of purchasing agents strengthen the relationship between the firms.

A supplier might counter that even if there is an appearance of unacceptability, it is an industry practice to provide gifts and benefits to purchasing agents. Since everyone concerned knows this, it isn't ethically problematic to provide gifts and benefits that in other situations would be considered wrong. There is a fatal flaw in this logic. Just because 'everyone' accepts a practice this does not make it right. Moreover, it is not the case that everyone does accept the practice. It was the concern that doctors could have been unduly influenced by drug companies' standard practice of hosting educational events at luxury resorts and providing other benefits that was part of the motivation to revise the pharmaceutical industry code of conduct in Australia. What was standard industry practice has now been recognised as being unacceptable and stopped (Medicines Australia, 2002). The persisting view that gifts and benefits pose one of the most problematic ethical issues in marketing and sales demonstrates a resistance to viewing industry practice as the standard for judging acceptability.

CONCLUSION

The claim that relationship marketing blurs the boundary between acceptable and unacceptable practices has been shown to be false. The plausibility of this claim results from the failure to distinguish two different propositions: (1) That practices aimed at enhancing the relationship between the buying and selling organisations are acceptable, and (2) that practices aimed at enhancing the relationship between agents of the two firms are acceptable. When a distinction between organisations and individuals is made it becomes much easier to distinguish acceptable from unethical practices. Those benefits provided by a supplier to a buying organisation as part of a genuine relationship marketing strategy are unproblematic. Token gifts and low-cost entertainment provided by salespeople to purchasing agents are also unproblematic. Unethical practices are those that result in a conflict of interest for the recipient. When a gift or benefit does give rise to a conflict of interest, both the purchasing agent and the salesperson have acted unethically. In a relationship marketing context, the behaviour of both the purchasing agent and the salesperson undermines the trust and commitment upon which a mutually beneficial relationship is built. Whether or not a conflict of interest exists in a particular situation depends on how an impartial third party would view particular examples but this does not mean the boundary between right and wrong is blurred.

Another claim that might support the blurring of boundaries was also shown to be unfounded. Just because there is an industry practice to provide gifts and benefits to purchasing agents, this does not make it acceptable. On the contrary, gifts and benefits are identified as posing one of the most problematic ethical issues in marketing and sales despite common practice.

It is concluded that the current common practice of providing substantial gifts and benefits to buyers in a business-to-business context cannot be ethically justified. All organisations have very good reasons to develop and enforce company codes of conduct and policies that make explicit what can be accepted and given. When there is a mutually beneficial, long-term relationship between the buying and selling organisations that depends on trust and commitment there is even more reason to review current policies and practices.

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