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Nooteboom, B.

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FOCUS: Marketing New Products

Marketing, Reciprocity and Ethics

Bart Nooteboom *

Manipulative behaviour towards people as instruments of profit rather than as sources of views, opinions and actions is not only unethical, but also constitutes bad marketing.

The marketing concept

Broadly speaking, the development of marketing thought can be seen as a shift of attention from self (producer, product) to other (customer, customer benefits). It developed from a focus on the product (roughly in the period 1900–1930), via a focus on sales (1930–1950) to the so-called “marketing concept” (from 1950)¹. This concept can be described as the notion that the desires and wants of customers are focal and form the point of departure. One should supply products with the goal of providing value for customers. This requires a systematic attempt to evaluate one’s offering from the perspective of the envisaged publics. What are the needs of the customer, and how does one satisfy them with product, service, price, distribution and communication, which constitute the mix of marketing instruments. It is in the interest of the supplier to provide a product that satisfies demand as closely as possible, because to the extent that it does so better than a competing product, it may command a higher price relative to cost. Thus marketing requires a customer perspec-

tive, with an eye to the competition, to achieve a viable and profitable position in the market, with a fitting and consistent marketing mix.

The development of marketing since the nineteen fifties is characterised by a widening of scope in several respects:

- attention to the marketing not only of consumer goods but also of products for industry, and to the marketing of services
- attention to the marketing not only for profit but also for non-profit organisations, including government
- increasing attention to the competitive environment, market structure, and entrepreneurship, with associated strategic aspects of marketing, and their implications for market position in the longer term
- increasing attention to the demands of innovation under conditions of rapid change of technology and markets, and the implications for cooperation
- integration of marketing with other functions in the firm.

This widening of scope, and the resulting increase of the impact of marketing

* The author is Professor of marketing and industrial organisation at the School of Management & Organization, Groningen University, P.O. Box 800, 9700 AV Groningen, The Netherlands. He wishes to thank Aard Groen and particularly Henk van Luijk for their helpful comments on an earlier version of this article.

1. The survey is derived in part from Leeftang (1981).

on society intensifies ethical questions. Principles of conduct that yield little harm on the company level, may cross ethical boundaries when applied to the macro level of government. Many people feel apprehensive at the transition from the selling of soap to the selling of presidential candidates and government policy.

In marketing the notion of "exchange" has come to the fore as the corner stone of theory. An increasing number of theorists are seeing marketing no longer as a matter of more or less isolated, discrete transactions, with a one-sided influencing of one party by the other, but as an ongoing process of mutual influence in a two-sided relation. Here marketing is no longer seen as a "technology of influence" but as a "social process of interaction"². The impulse to this was formed partly from the broadening of the marketing concept to "social marketing", where marketing is applied to government policy. The idea is that if marketing is broadened in this way, the marketing concept must also be broadened towards a two-sided influencing.

Despite its professed customer-orientation the "marketing concept" had retained a mentality of one-sided influence. This appears, for example, in the key article "A Generic Concept of Marketing" where Kotler (1972) laid the claim for a far-reaching extension of the domain of the marketing concept. The fourth axiom of this "generic concept" was as follows: "Marketing is the attempt to produce the desired response by creating and offering values to the market". Kotler was criticised for this, particularly since the concept was also applied to the "selling" of government goals, as part of "social marketing". Tucker (1974, p. 32) put it this way: "Generic marketing is defined as an overt attempt to change the behavior of someone else . . . the old marketing myopia of seeing the world from the channel captain's seat, continues. The organisation is the marketer and the 'publics' are merely 'buyers'. This seems to have as its corollary the dictum that marketing theory need not consider the public except as marketing targets". To be fair, one should note that Kotler did leave room for mutual influence (Kotler 1972, p. 49): "Mutual mar-

keting describes the case where two social units simultaneously seek a response from each other". Nevertheless, Tucker had a point in that "mutual marketing" had to be added as a special case. Perhaps marketing should always be, or inherently is, mutual.

Marketing practice

Apart from the theoretical debate, from a more practical perspective we see increasing attention being paid, in both consumer markets and markets for industrial products, to more enduring exchange relations between producers and users, rather than to discrete, incidental transactions, and a tendency towards more two-sided interaction. In consumer markets this is due, in part, to a growing awareness that it is often more efficient, from a cost/benefit perspective, to maintain loyalty of existing customers than to lure new customers. But to maintain custom, one needs the customer to voice his or her complaints, as a partner in development and maintenance of quality; as a source of feedback rather than only a sink of products. In the terminology of Hirschman (1970), without an outlet for the exercise of "voice", the customer will "exit" quietly, without offering the benefit of insight into the causes of their discontent. In industrial markets, rapid change of technology and global markets dictate a need for firms to differentiate products and at the same time achieve a faster development of new products and processes; to achieve a flexible and effective response to changing conditions of demand and competition. This yields a need to contract out more activities. In the "make or buy" decision there is a shift to "buy", and to a concentration on "core activities", in order to build up and maintain the required flexibility and speed of response. Activities are contracted out even if they are specific to the demands of the user, and are sensitive to defaults or aberrations in design, quality and supply. This makes both the user and the supplier vulnerable to mishaps and opportunism on the part of the partner³. As a protection against this, schemes of

'marketing should always be, or inherently is, mutual'

2. Cf. Sweeney (1972), Houston & Gassenheimer (1987), Dwyer, Schurr & Oh (1987), Day & Wensley (1983), Levitt (1983).

3. Transaction Cost Economics, as developed in particular by Williamson (1975, 1985), is used to study these problems of transactions and ways of dealing with them, but it is beyond the scope of the present article to discuss it at any length.

"governance" (a term derived from Williamson, 1985) can be devised, but a good design of mutual advantage, reputation for competence and trustworthiness, and trust based on ongoing relations of reciprocity form an indispensable part of exchange⁴. Attention shifts from price to quality and service (including logistics); from "static efficiency" (low costs) to "dynamic efficiency" (innovative competence). Producers seek to involve users, and users seek to involve suppliers, in the development of new products, in order to speed up development and introduction to market, and to reduce the risk of marketing misfits and misfits in production and logistics⁵.

There is not only a demand for such changed relations between producers and users, but also an opportunity to implement and support them with information and communication technology (telematics). Telematic links between producers and users are available to support and integrate ordering, invoicing and payment; to monitor transportation, stocks, and work in progress; to integrate product design (CAD), the design and planning of production (CAM), and quality control⁶. This technology can be used as a powerful instrument for one-sided control and regulation, enforcing the position of "channel captains", but it can also be used for interaction and two-sided debate.

The emerging marketing practice appears to be stealing a march on theory. In this article we consider what concepts may lie behind it, and what the implications may be for ethics.

*'prosperity
requires division
of labour'*

Reciprocity in production

Since Adam Smith, if not before, we are aware that prosperity requires division of labour. Some people are better at some things than others, if not by nature or design, then by training and learning. When there is division of labour, there is a surplus value in exchange, which equals the excess of the highest price the buyer is willing to pay over the lowest price the seller is prepared to accept. There may be haggling over the division of this surplus, but there is also room for give and take:

one may willingly deviate from the "focal" point of a fifty-fifty split, in order to help the other party, and still obtain part of the surplus⁷. This is the principle of what Macneil (1986) called "specialized reciprocity", which yields "organic solidarity". The existence of the surplus due to specialization creates a mutual demand for peace and trust, and hence solidarity, in order to achieve continuity, when there are costs involved in breaking up the transaction relation. These costs are higher to the extent that the surplus due to specialization is larger and there are costs involved in switching to another source or user. Note that a tribe of hunters may collectively depend on exchange with an agricultural tribe, but individual hunters may switch exchange partners in the agricultural tribe, and thereby evade commitments to solidarity. Thus it may be advantageous to both tribes to centralize exchange and commitment to solidarity. This is one of the forces that gave rise to central government: in order to make solidarity collective. Note also that the cost of breaking up an exchange relation is larger when the division of labour not merely enhances efficiency, as when each of the two sides could in principle conduct both production activities but it is more efficient to specialize, but is based on a difference in competences that cannot easily be acquired. If an agricultural tribe is not merely indisposed towards hunting but incapable of it by their build, say, their dependence on exchange with the hunters is so much greater. Thus the demand for solidarity is related to differences in the endowment of competence. "Organic" solidarity may be established by a give and take, according to relative conditions of need and prosperity, in the space accorded by the exchange surplus, with both sides all the time still enhancing (though no longer maximizing) their own gains.

We propose that the principle of specialized reciprocity, and the organic solidarity associated with it, applies also to present market exchange. We should beware, however, not to make market exchange seem too idyllic. When dependence is one-sided, the more autonomous and in that sense more powerful partner

4. Cf. Berger, Noorderhaven, Nooteboom & Pennink (1991).

5. Cf. the concept of the "leading customer" of von Hippel (1988, 1989).

6. For a discussion of the implications of information technology for transaction costs, see Nooteboom (1991a).

7. The notion of a "focal point" in agreements and bargaining derives from Schelling (1960).

may be in a position to appropriate the full surplus of exchange, to the detriment or even destruction of the more dependent partner. However, a reputation for such conduct will discourage potential and attractive new partners to enter upon a relationship. When dependence is mutual, even if it is not quite symmetric, it will often be in the common interest of an ongoing exchange relation to provide help, within the margin of the surplus (or even outside it, accepting occasional loss). This may serve to accommodate a temporary mishap on the part of the partner, or to compensate for risks taken in investments, or to allow for further investment in improved competence. Large producers may use their power with respect to small, specialized suppliers to squeeze their profits, or to shift risks of excess capacity due to fluctuation of demand, or to hive off dirty, dangerous or low-skilled work. This is what people say is happening in Japan. On the other hand, they may use the surplus from exchange to compensate for risks taken by suppliers, and to enhance further development of competence, thereby enhancing the quality of supply, which in the long run is in their own interest. This is what recently has been happening in Japan.

The analysis applies to material exchange, in production, but may also apply, though with requisite changes, to exchange of knowledge and meaning. In present economic systems a crucial production factor is knowledge. If it were the case that there can be cognitive differentiation, there would be advantages of cognitive specialization, with a resulting surplus in cognitive or symbolic exchange (communication). This would yield a second level of exchange, in addition to the level of material exchange, with, perhaps, a corresponding extension of specialized reciprocity and organic solidarity.

Reciprocity in knowledge

In a diverse and changing world different people and different firms will perceive and interpret things differently. This cog-

nitive differentiation calls for cognitive specialization. There is an opportunity for cognitive/semantic reciprocity: it is by interaction with others that new knowledge is acquired and new meanings are created. Innovation often comes from the integration of different areas of experience. It is by bringing the perspectives and experiences of suppliers, users and, more circumspectly, competitors into the firm that one achieves the efficiency in innovation that is required for survival.

Many illustrations can be given. Producers of machinery, instruments, tools etc. need information from the perspective of users, not only on the performance of the product in its core function, but also on its ease of use, training, installation, maintenance, diagnosis and repair of break-downs, etc. A producer of packaging or containers needs to absorb the experience of users under different conditions of transport, handling, stocking, in different countries with different climates, infrastructures, systems of logistics. For a new product one needs inside information from diverse user contexts on possible obstacles to introduction, due to divergence from established routines and vested interests. Information is needed not just on the sales side but also on the supply side: attributes of materials or components with respect to production, use and scrapping; future conditions of supply; emerging technologies, etc.

If this reciprocity in perception and knowledge matters now, why didn't it matter so much before? In a stable environment perceptions and interpretations converge to a more or less common perception and interpretation. If different agents perceive the world similarly they have less need for each other to complement their limited views. It is under conditions of turbulence, where different contexts yield different perspectives, that one needs partners in perception and interpretation to complement one's competence⁸. In other words: in such conditions there is a lower premium on autonomy, and a higher risk of becoming imprisoned in outlived perceptions, interpretations or valuations. This brings us back to the old philosophical theme of the master and the slave. Ultimately the master is the victim

'Innovation often comes from the integration of different areas of experience.'

8. Of course, if differences in perception and meaning are too large, and there is no intersubjective order, communication will fail.

'All uncontestable power is bad not only because it violates the interests of others but also because it defeats itself in its isolation.'

of his ability to set the terms and conditions of the relation, and to disregard the views of the slave, because he thereby misses out on the opportunity to learn and adapt. He is stifled in the isolation of his supremacy. Monopoly is bad not only because it yields prices which are too high, and monopsony is bad not only because it yields prices which are too low. All uncontestable power is bad not only because it violates the interests of others but also because it defeats itself in its isolation.

A second, complementary and crucial factor is that cognitive reciprocation yields a greater need for continuity of the exchange relation, for two reasons. First, while cognitive reciprocation requires a difference of perception, interpretation and evaluation, as a source of novelty, it also requires a measure of commonality, to enable communication. A model of this is to be found before our noses, in ordinary language, which is a marvellous generator of meaning in its combination of intersubjective similarity and idiosyncratic diversity⁹. In relations of specialised cognitive reciprocity it requires time to establish bilateral linkage in meanings, interpretations and evaluations. In exchange relations between firms this includes knowledge of: priorities, preferences and competences on the part of the partner; formal and informal organizational structure and process; whom to talk with about what and in what terms; how to establish links across technical interfaces and to utilize complementarities. This yields costs of switching to a different partner (where the investment in shared meanings and goals would have to be made again), and thereby puts a premium on continuity of the exchange relationship. A second reason for a more lasting exchange relationship is that the process of adopting new knowledge or technology from a partner is a process with several subsequent stages, and therefore requires time¹⁰. Note that the two reasons we have given for a relation that lasts for some time are distinct from the more elusive concept of trust. With this I do not wish to deny a role for trust; on the contrary, in my view trust is part of reciprocity, and indeed of communication. What I wish to emphasize is that

reciprocity does not depend only on trust, and thereby becomes more solid.

When we consider cognitive/semantic exchange, there are further differences as compared with material exchange. First, unlike material goods, with information one can have one's cake and eat it too. Knowledge does not diminish from its distribution. If I tell you something, I have not lost the knowledge of it. Note, however, that in some important cases proprietary knowledge gives an advantage, as for example in the case of a formula for a new drug. That is why in order to elicit innovation we need protection against the diffusion of knowledge, by patents or other means. But in vertical relations between producers and users the exchange of information, when protected from horizontal leakage to competitors, is augmenting rather than diminishing. Then, since no loss of information is involved in its distribution, the minimum price of supply may be zero, whereby there is a surplus as soon as the receiver attaches any value to the information. In horizontal relations, specialized reciprocity obtains only when the surplus is larger than the potential loss due to the surrender of proprietary knowledge. Thus, horizontal exchange will occur in stages of development of a more basic nature, at a distance from the stage of introduction to market¹¹.

Second, there is the problem (Arrow's paradox of information) that it is difficult to evaluate the worth of information if one does not already have it. This poses a problem for the selection of partners for the exchange of knowledge, to the extent that there are costs and time involved in setting up the contact and exploring its worth. An obvious selection device would be past innovative performance as a supplier or user. A good reputation may generate trust: it serves to indicate the reliability of the partner with respect to both the value of the knowledge and competence that he offers and his willingness to offer a measure of solidarity. Trust in solidarity can also be enhanced by shared experience, norms and values, friends, relatives etc.

9. Elsewhere, in Nootboom (1991), I have employed the linguistic philosophy of Ferdinand de Saussure to explore this analogy.

10. For a well-known account of the multi-stage adoption process, see Rogers (1983).

11. Horizontal cooperation at a later stage may occur in an alliance to force a market standard, as in the cooperation between Philips and Sony to establish the compact disc.

Marketing ethics

Ethics tends to be seen as the setting of boundaries within which conduct may take place. These boundaries are seen as imposed from outside; from a realm of ethics that is basically a nuisance but must be taken into account, and must be shown to be taken into account, by responsible citizens. A necessary, but not sufficient, condition for ethical conduct is a certain amount of solidarity: the taking into account of the interest and expectations of others, even if it reduces one's own gains. Solidarity entails the principle of reciprocity: respect and lack of manipulation with respect to others; respect for the freedom of others to have and voice their own views; modesty in claims of understanding others and of being able to decide what is best for them. The other (person, party) is not some object that can be controlled and used as a mere instrument, but a person with his/her irreducible individuality and idiosyncrasy, with an inalienable right to voice an opinion and thereby have an impact on us. People are not mere objects, but cognitively and morally transcendent, and thereby constitute sources of agency and "voice"¹². In human affairs in general and marketing in particular, one-sided influence is bad from an ethical perspective. This ethical stance may suggest that the opposition against marketing as a process of one-sided influence stems from a humanistic sense of justice, democracy and human dignity: users (consumers) should be able to influence producers (and government) to avoid manipulation. That certainly is a valid source of opposition. But the point of the present article is that one-sided influence is also bad marketing.

Solidarity and the enhancement of own gains do not necessarily exclude each other, even in the economic sphere of material exchange. Market exchange is based on division of labour which yields a surplus of value, which provides a need and a basis for "organic" solidarity. The surplus may be used to implement solidarity, in the joint interest of an ongoing, productive exchange relationship.

In addition to the surplus in material exchange, as a result of specialization, an

argument for reciprocity in marketing arises for epistemological and linguistic reasons. There is surplus also in the exchange of knowledge and meaning. It is bad marketing to presume to know all there is to know about customers and competition, and to ignore the sources of criticism and ideas from customers, suppliers and competitors. To do this is to miss the benefit of the idiosyncratic views and experience of customers and competitors; to miss the benefit of their voice. This matters because thereby one deprives oneself of access to fresh views and competences outside one's own perspective, and thereby gets locked into one's own bias. Like words, products do not have a meaning or use value by themselves but obtain it only in use, in interaction with other (complementary or substitutive) products. To turn a deaf ear to the voice of others in the presumption of knowing what is good for them is to put oneself out of the game. If a producer shuts himself off from the influence of others he loses his marketing identity. It is by two- or many-sided influence, in a nexus of market relations, that one obtains the perception and understanding required to make sense in the market. Marketing is fully effective only if it endorses the principle of reciprocity, in order to mobilize agency and voice, to the mutual advantage of user and producer¹³. Every marketing action should have an action in reverse direction; as in mechanics, so in marketing, action should equal reaction. Product-design is not just the provision of functions to users but also the embodiment of their response. Price is not something added to cost but the division of a surplus in exchange. Communication is empty if it is not two-sided; meaning is not given prior to communication but derives from it. Distribution serves not only to facilitate access of the buyer to the product, but also to facilitate access of the supplier to the customer's response.

We conclude that the principle of reciprocity does not go against marketing, and marketing should not go against it. One-sided influence in marketing is not only unethical but unproductive, from the perspective of both user and producer ●

*'one-sided
influence is also
bad marketing'*

12. This view has been inspired, in part, by the philosophy of Immanuel Levinas (1961).

13. For an elaboration of the argument, see Nooteboom (1991b).

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LETTERS TO THE EDITOR

THE EDITOR WELCOMES CORRESPONDENCE

ON MATTERS REFERRED TO IN THE REVIEW

OR ON OTHER SUBJECTS RELEVANT TO

THE ETHICAL CONDUCT OF BUSINESS