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ACTIVE AND PASSIVE TRADING RELATIONS

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Abstract

Anonymous competitive markets are often contrasted with relational exchange. Much actual trade falls between the two: trading is not anonymous, for the participants know each other, but they have only a weak bond. The current paper examines this middle ground and discusses the institutions behind relational trading. It distinguishes active relations, as envisaged by the relational exchange literature, from passive ones associated with brand loyalty and relationship marketing. What we describe as a market in everyday language is seldom anonymous and includes diverse seller-buyer links that merit closer attention from economists.

Keywords: markets, relational exchange, loyalty, trust, competition

JEL Classification: D40, L14, M31

Introduction

In competitive markets, agents are supposed to make decisions by prices alone. Buyers and sellers seek the best price for a standard product and switch trading partners accordingly, so there are no loyalties or relationships. Price-driven, anonymous trade has been hailed as the paragon of a market, summarised in the orthodox concept of perfect competition, which is ubiquitous in economics textbooks but elusive in practice. Most traders know the name of their trading partners: buyers remain loyal to particular producers and retailers; sellers trace loyal customers and stay in touch. Far from being anonymous, trade is moulded by seller-buyer relationships.

The economic literature has acknowledged these social links through the notion of relational exchange or contracting (Richardson 1972; Goldberg 1976, 1980; Williamson 1979; Macneil 1981, 2000; Dore 1983; Powell 1990). Instead of seeking the best price, traders cleave to familiar and trusted trading partners even if better prices are available elsewhere. Strong relations yield bonds between paired traders that omit anyone else; external competition dissolves, alternative arrangements are off the agenda. Transactional exchange, in which every transaction is a separate decision, gives way to relational exchange, in which relationships are paramount (Macneil 1980a; Dwyer, Schurr and Oh 1987; Fontenot and Wilson 1997; Tomer 1998; Lambe, Spekman and Hunt 2000). Pure relational exchange with robust seller-buyer bonds can be viewed as the opposite of anonymous price competition. Although it draws a clear contrast with competitive markets, it is untypical of trading at large. If pure competitive markets are rare, the same can be said of pure relational exchange.

Less rare is behaviour between the two poles, where sellers and buyers have weak links that rule out anonymity but permit external competition. Weak links are analysed by the management and marketing literatures in a sub-discipline of relationship marketing with its own courses and textbooks (Gummesson 2008; Godson 2009; Kotler and Keller 2016). They also feature in economic sociology, which has studied the influence of weak ties generated by

markets (Granovetter 1973, 1983). In the economic literature they are thinly represented. For orthodox economics, any seller-buyer bond must be inefficient and imperfect relative to the benchmark of perfect competition, and anonymity should be restored if at all possible. The pejorative tone hampers attempts to appreciate the social background to trade. Heterodox economics rejects perfect competition as a benchmark, opting for a wider interpretation of markets (Prasch 1995; Rosenbaum 2000; Dolfsma, Finch and McMaster 2005; Hodgson 2008; Redmond 2010; Fernández-Huerga 2013; Nooteboom 2014). Unlike orthodoxy, it should be comfortable with trading relationships and willing to incorporate them in its theorising.

The current paper presents new dimensions to characterise trade that go beyond the market/relational exchange dichotomy. One dimension is to distinguish between two types of relational trade, active and passive, the former referring to the strong bonds depicted in the literature on relational exchange, the latter to the weak bonds observed in product branding and loyalty schemes. Another dimension is to allow for different numbers of agents in seller-buyer relationships. Movements along these dimensions offer several market structures between the poles of pure competitive markets and pure relational exchange. Such intermediate cases, sidelined in the economic literature, have important consequences for trade and competition, especially with the spread of information technology. The second section highlights the incidence of relational trading, while the third elaborates on the active/passive distinction. The fourth considers implications for market structure, the fifth asks how competition is affected, and the sixth makes concluding comments.

The Incidence of Relational Trading

Trade varies greatly with the goods and services involved, the number of sellers and buyers, the social interactions among them, the duration of relationships, the extent of repeated purchases, and so forth. All trade, however, relies on voluntary exchanges of statutory property rights (Commons 1924; Hodgson 1988, Chapter 8; Fourie 1991; Prasch 2008, Part I). Without property rights there would be no initial agreement about ownership, no

legal oversight and no method of resolving disputes. In an unregulated environment, commerce would be precarious. Voluntary exchanges are overseen by property law and contract law, to distinguish between voluntary (legal) and involuntary (illegal) transfers. Sellers and buyers in a market enter a contract that regulates their trade and ensures its legality.

Complete contracts would dictate agents' behaviour and minimise social interaction, with trade determined by the contract itself. Markets could hypothetically approach the textbook ideal of atomistic price competition. To argue so would be misleading, for contracts are incomplete and do not dictate how people trade. A maxim well known in social science but often neglected in economics is the impossibility of pure contract (Durkheim 1984, Book 1, Chapter 7; Hodgson 1988, Chapter 7). No contracts can ever be comprehensive enough to span every event and encompass the complexity of the real world. The maxim extends to trading contracts, which leave space for varied behaviour and are designed chiefly to prevent fraud, preserve continuous trade, and protect victims of malpractice. Penalties for malpractice invoke an exercise of power over others inherent in all contracts when things go wrong (Macneil 1980b). Most trade proceeds smoothly without disputes – as long as agents meet their contractual obligations, they have freedom to decide precisely how they behave.

Three main contractual forms are found in trading: sales contracts, contracts for services, and contracts of service (Simon 1951; Hodgson 1999, Chapter 7; Kalleberg 2000; Riley 2016). Sales contracts arise in the sale of manufactured goods and other physical items; they cover some but not all eventualities and stay unnoticed unless problems crop up from faulty goods, misinformation, etc. Contracts for services arise when one agent hires the services of another to perform a specific task, such as decorating a house or repairing a car; because the tasks are more intricate than selling a good, the contract is less complete than a sales contract. Contracts of service (employment contracts) arise when an employer pays for the long-term services of employees recruited from a labour market; the contract is nowhere near complete, and day-to-day working practices must be negotiated. Different contractual forms mean that social ties in markets revolve around the kind of transaction and its legal setting.

Relational exchange comes to the fore in hiring and employment, which necessarily have a service element. A hiring relation with a contract for services requires people to get together

to discuss the job to be undertaken, how it will be performed, how much it will cost, and whether it has been completed satisfactorily. For the duration of the contract, discourse between seller and buyer must be maintained, and good service may encourage future trade in a lasting relationship. Employment derived from a labour market goes further, creating a contract of service that pulls the seller and buyer together indefinitely. Activities not set out by the contract are negotiated between employer and employees (Fox 1974; Marsden 1986; Fleetwood 2006; Kaufman 2007). The seller-buyer bond is a direct, personal one reaching outside the labour market towards production and the organisation of work, a sphere termed the 'labour process' in Marxian and allied literatures (Lazonick 1990; Tinel 2012). Two parallel structured relationships coexist: seller-buyer and employee-employer.

Another prime example of relational exchange is craft production of bespoke items specified by the buyer and ordered from the producer (Powell 1990; Luckman 2015). Personal seller-buyer interaction to tailor the item being bought will be the catalyst for chronic trading ties. Similar interaction happens in industries with much market power and few participants. Examples are defence and health care, where the buyers are governments, the sellers big military contractors or drug companies (Sandler and Hartley 1995, Chapter 5; McPake, Normand and Smith 2013, Chapter 13). Sellers and buyers deal with each other on numerous occasions and forge strong links. Alternative arrangements could be risky, so the traders stick with familiar partners.

For most consumer goods, seller-buyer relationships are less obvious though widespread. Goods in a competitive market are supposedly homogeneous, but manufacturers brand their products in the hope that buyers will gravitate towards a known and trusted brand name. Branding strategies have become integral to non-price competition, aimed at creating the brand as distinct from the product (Aaker 1991; Keller 2012). With brand loyalty, sellers and buyers who never meet can still form a connection, such that buyers identify with the brand and keep returning to it (Lau and Lee 1999; Delgado-Ballester and Munuera-Alemán 2005). Modern marketing strategies recommend that sellers make contact with buyers through relationship marketing or customer relationship management (Morgan and Hunt 1994; Payne and Frow 2005; Godson 2009; Kotler and Keller 2016, Part 3). Having acquired contact details for loyal customers, the seller communicates with them so as to nourish trading bonds. Targeted advertising, special offers, loyalty schemes, after-sales service, newsletters, blogs

and social media websites are all used to stimulate repeat purchases from former buyers. Recent advances in information technology have made it easier than ever before for sellers to keep track of buyers' behaviour and pursue potential loyal customers through online marketing (Gay, Charlesworth and Esen 2007; Chaffey and Ellis-Chadwick 2016; Strauss and Frost 2016). Sellers and buyers may never negotiate in person, yet they can come to know each other and interact consciously. The relational component is smaller than with people who meet and talk but greater than it would be under pure price competition.

All these examples of relational trading can be seen in developed economies. The stronger versions underpin employment, services and customised trade; the weaker versions stretch across a vast range of manufactured consumer goods. Products are branded and marketed by producers and retailers eager to generate loyalty among purchasers. As a marketing technique, sellers make overtures to buyers and build social networks with them. Even if no face-to-face contact occurs, the outcome should be recognised as relational trading. When combined, the stronger and weaker trading links are pervasive, leaving anonymous competitive markets a rarity (maybe non-existent). The activities we label in ordinary usage as markets are, on the whole, relational. A full understanding of markets should be awake to their relational facets, notably the weaker trading links at the heart of modern commerce.

Types of Relational Trading

Orthodox treatment of markets and relational exchange dwells on pure cases of each. Markets are aligned with perfect competition – anything that diverges from this must be imperfect, diluted by non-market features. The sole case that can be termed a market unreservedly is the pure competitive ideal with no social relationships, which provides the benchmark for comparison. Other cases have to be justified as responses to market failure. Alternatives to the competitive market, in the form of administrative procedures or trading relationships, occur only under exceptional circumstances when they offset uncertainties or reduce transaction costs. Anonymity is the best arrangement, subject to waiver if markets fail or suffer imperfections. Relational exchange has usually referred to imperfect cases with

deep-seated bonds between paired agents to the exclusion of anyone else (Goldberg 1976, 1980; Williamson 1979; Macneil 1981). Cases where bonds are weaker, more diverse and less enduring are awkward in so far that they differ from pure relational exchange as well as from pure competitive markets. The problem at hand is how to cope with the middle ground between the two pure cases.

This middle ground has already received some attention from the industrial organisation and marketing literatures. The idea of domesticated markets, for example, points out how firms tame their markets by creating long-term seller-buyer ties that are planned and administered (Arndt 1979; Redmond 1989). Trading then follows procedures in a managed relationship different from what would normally be meant by relational exchange. Kindred ideas occur in the literature on networked marketing systems (Thorelli 1986; Layton 2007, 2011). Here the whole practice of marketing is organised as networks of individuals, groups and firms, taking on a social guise through the links within a managed framework set up by the producers/sellers. Again the outcome is relational yet unlike the customary picture of relational exchange.

We therefore have different types of relational trading, some nearer than others to the pure case. The middle ground consists of agents who have loose, casual ties with various trading partners. Existing terminology has no adequate label for these intermediate cases, neither pure competitive markets nor pure relational exchange. Their relational aspect suggests that they should come under the broad heading of relational trade. The simplest approach, adopted in the current paper, is to make a distinction between stronger versions termed active relational trading and weaker versions termed passive relational trading; both differ from trade with no relational content. Table 1 compares them.

Table 1. Active and Passive Trading Relations

	Anonymity	Personal Knowledge	Regularity of contact	Trade negotiations	Customisation of trade
No trading relations	Yes	None	Never	No	None
Passive trading relations	No	Low	Infrequent	No	Partial
Active trading relations	No	High	Frequent	Yes	Total

Anonymous competition (top row of Table 1) refuses all social bonds. The agents do not know each other and have no desire for personal knowledge, which is irrelevant to their decisions. All that matters is the price, regardless of other factors. Traders have no loyalty and will be glad to discard today's partner in order to get a better deal from a different partner tomorrow. Every transaction is separate, with no repeated contacts among agents. Homogeneous products are undifferentiated by branding; prices are published and do not have to be negotiated. Sellers and buyers focus on the same product at the competitive market price, never customising their practices. Since they keep aloof from regular partners, they devote no time or effort to maintaining relationships.

Passive trading relations (middle row of Table 1) involve traders who know each other's identities and are not anonymous but have little personal knowledge and only a slight connection. Often they are linked by brand loyalties, customer databases, targeted advertising and other techniques of relationship marketing. Direct contact, possible because of customer records, will be spasmodic and not yield close personal bonds. Trade is structured through loyalty schemes and social media that let sellers have distant, scattered

relationships with large numbers of customers but no exclusive tie to any of them. Buyers can likewise join several loyalty schemes, with no single exclusive bond. In setting up passive trading relations, a firm's motive will be to plan and coordinate its market, looking towards its business rivals rather than its customers. Close personal interaction with every buyer would be unfeasible on the vast scale of global mass production. Lack of anonymity and knowledge of customer identities remains crucial for branding, however, and a successful marketing campaign will result in buyers identifying strongly with the brand even if their tie with the producer/seller is weak. Opportunities for customising trade are narrower with passive than active relations, although partial customisation can occur if loyalty schemes offer privileges. The effort required from the customer is limited to supplying name and contact details. Passive relations bring about dispersed, formalised seller-buyer links just sufficient to influence trade.

Active trading relations (bottom row of Table 1) draw on personal knowledge among agents who become familiar with each other, whether as individual people or as representatives of firms or other organisations. They communicate to review their trade and may meet in person, so that dealing takes on a conversational flavour. Frequent physical meetings are not absolutely necessary with modern communications, as complex negotiations can be carried out remotely. Negotiations may depend on the length of contracts, peaking when contracts are due for renewal. Behaviour obeys no template, and agents find their own style of trading. Each deal can be customised, if desired, into a unique shape, with variations including the nature of the product, the price paid, the method of payment, the timing of payment, and the offer of ancillary services. Close relationships may sometimes be cemented by side-payments, gifts, bribes and other tokens. Customisation makes active relational trading adaptable, albeit with effort – participants must be energetic in deciding on unique arrangements.

The three cases in Table 1 tally with the triad of exit, voice and loyalty (Hirschman 1970). Pure competitive trade is characterised by exit. It rests on transactional exchanges in which each sale is a discrete event based entirely on prices: traders want the best price and exit from deals that do not pass this test. Active relational trade is characterised by voice. It rests on durable relationships and dialogue: traders express themselves by voicing their views in negotiations. Passive relational trade is characterised by loyalty. It rests on institutional

bonds that set out norms and routines: traders express themselves through loyalty to brands and thereby to certain trading partners. Buyers and sellers in passive relationships retain the option of exit and possess limited chances for voice and negotiation, but loyalty is the keynote. If loyalty can be engendered, then the likelihood of exit is reduced, as is the need for negotiations. In this respect, loyalty from passive trading relations has a mediating function that stabilises trade and diverts it from the starker alternatives of exit and voice.

Applied to actual economies, the cases in Table 1 can be used only approximately. The strength of relationships may be variable and boundaries between cases not always clear. True anonymity is seldom encountered – even orthodox economists accept that the textbook ideal of perfect competition is hypothetical. The case of no trading relations in Table 1 should be less stringent than perfect competition, or it would be an empty set. It is best seen as including cases where trade may not generate competitive equilibrium in the orthodox vein but, all the same, has nugatory social relations. For present purposes the relational void is the distinguishing feature. Broadly speaking it should be possible to find all three cases in developed economies, a question that will be revisited in the penultimate section. Each case has its own relational properties within the contractual frame of a voluntary exchange of property rights.

Implications for Market Structure

Under the assumptions of neoclassical economics, trade stems from rational, self-interested agents who start trading if they can gain mutual advantage. Little is said about the institutional context for markets, which appear to emerge spontaneously. According to the fundamental theorems of welfare economics, perfect competition generates the best collective outcome, other modes of trade bringing imperfections and efficiency losses. The imperfect cases have different market structures with smaller numbers of traders and varying market power, as in the structure-conduct-performance approach (Bain 1959; Scherer 1980). Relational exchange falls into the imperfect category and can be accounted for as non-price competition. Firms differentiate products and recruit loyal customers as a way to engage

their rivals without indulging in price wars that would harm aggregate profits. If brand loyalty can be secured, a firm will have consolidated its market power by erecting barriers to entry that exclude other firms (Bain 1956; Chamberlin 1962; Redmond 1989, 2013). The trading ties safeguard the profits of the producer/seller, with little obvious gain for the buyers. Removing relational trade and returning to price competition would yield potential Pareto improvements.

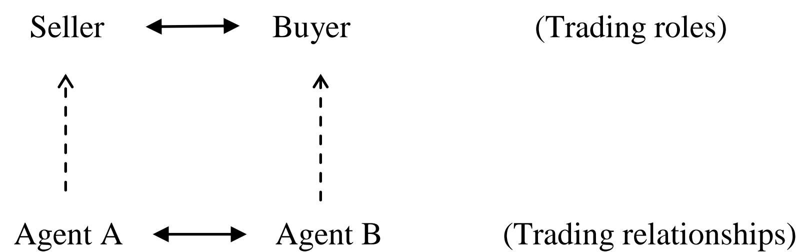
The neoclassical image of spontaneous markets disturbed by imperfections gives a deceptive impression that ignores how trade is organised and planned ahead, as institutional economists have long been aware (Hodgson 1988, Chapter 8; Dugger 1989; Samuels 1995). Property rights must be established, conditions for their voluntary transfer monitored, a location and manner of trade decided, prices set and published, information disseminated. Many important matters have to be handled through prior organisation, so the institutional details of trading are not mere imperfections added on later. Vital as it is, the formal organisation of a market can never quite be complete and is supplemented by informal arrangements, personal bonds and trust among traders. These too extend beyond being imperfections and should be perceived as normal to markets.

All market traders play seller and buyer roles defined by property and contract law. The roles do not wholly determine behaviour, hence the possibility of relational trading, but are essential for organised, legal commerce. Trade conforms to a sociological account of social structure in which the roles of seller and buyer exist independently of the role occupants (Parsons 1951, Chapter 2). The roles are bound together in a structural nexus, given that a seller could not exist without a buyer (Lawson 1997, Chapter 12, 2012; Jackson 2003, 2007; Sayer 2010, Chapter 3). Anybody who trades will temporarily occupy a seller or buyer role during the transaction; afterwards they are released from the role until they return to the market or enter a different one. Sellers and buyers participate in many simultaneous transactions and occupy multiple trading roles, some repeated frequently.

Figure 1 illustrates the roles and relationships that make up seller-buyer interactions. Formal seller and buyer roles are the institutional bedrock. Other relations (seller-seller, buyer-buyer) may bear upon trading but never have the primacy of the seller-buyer relation, without which trade could not take place. Since contracts are incomplete, roles are not

exhaustive and agents are free to act independently. Along with seller and buyer roles, trade has a further level of social bonds between agents. Agent A in Figure 1 occupies the seller role, Agent B the buyer role, both with room to venture outside these roles. Their capacity for social interaction may arouse relational trading at the lower level of Figure 1.

Figure 1. Trading Roles and Relationships



Anonymous competition can ensue only if the relationships in Figure 1 are negligible. Trade will then turn on seller and buyer roles complete enough to guide behaviour. Belying the neoclassical image of spontaneous markets, anonymous competitive trading requires a tight institutional framework. Agents must be price takers, adhering to the published market price, and deal in homogeneous products. All they do is sell or buy at the best available price. Trading shrinks down to its contractual roots and has no space for social bonds. Hardly any practical examples of trade reach the anonymous extreme, though some may come fairly near.

Active trading relations call upon the lower level of Figure 1. Seller and buyer roles are still present but confined to the basic issue of transferring property rights. Other details (nature of product, pricing, payment method, ancillary services) are negotiated and customised by traders who know each other and have an ongoing commitment. While roles and relationships are both important, the balance swings towards relational exchange among partners.

Passive trading relations fit neither level in Figure 1. They are both relational and institutional, inasmuch as the participants have an institutionalised link. Often the sellers, better organised than the buyers, design the institutions through customer relationship management. In the quest to bolster sales, the seller makes it easy for buyers to form a link by joining loyalty schemes and acquiring special status as preferred customers (Grönroos 1994; O'Malley and Tynan 2000). Isolated, disconnected purchases make way for social bonds (Dwyer, Schurr and Oh 1987). A passive relationship operates through institutions that permit knowledge and favours without face-to-face contact. It initiates new, subsidiary roles of regular provider and customer, consistent with the seller and buyer roles but eliciting a social bond. The traders declare loyalty to each other, maintaining contact, sharing information and enjoying privileged terms of trade. Regular providers and customers expect to trade repeatedly, although without obligation. Subsidiary roles are not strictly binding, so people can move outside them if they wish – shoppers can, for example, hold more than one loyalty card. Trade has leeway for variation, subject to an increased likelihood of regular trading patterns.

Figure 2. Trade with Subsidiary Trading Roles

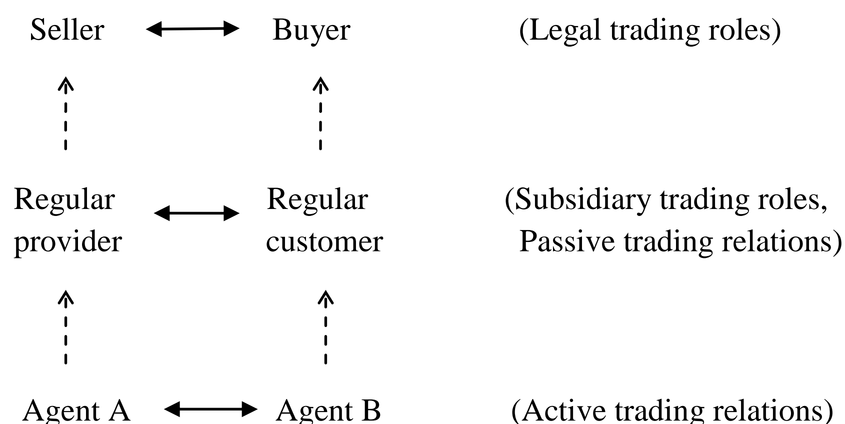


Figure 2 depicts subsidiary trading roles as an extra level. The legal setting remains intact through the seller and buyer roles at the top level. Agents continue to participate in active relations at the bottom level. The difference is the middle level of subsidiary roles that combine the formality of role-based trading with the personal knowledge of relational trading. Anyone who enters the market must occupy a seller or buyer role but can now take on the further role of regular provider or customer. As is generally true of institutions, these new roles simplify behaviour by giving it a normalised form that yielded satisfactory outcomes in the past (Waller 1988; Hodgson 1997; Biggart and Beamish 2003). Instead of being optimisers continuously seeking the best prices or negotiating new deals, people turn to trading norms with known partners. Trade is more predictable than it would be in pure competitive or pure relational exchange.

The regular providers and customers in Figure 2 are aware of each other's attributes and trade under pre-arranged special conditions without ever making a unique agreement. Passive relations capture key features of markets for many manufactured products. The dualism between anonymous and relational trading softens into a layered picture that admits a half-way position with weaker, institutional links. This argues against a narrow definition of markets, for they are no longer synonymous with price competition, and a wider vision beckons. Subsidiary roles breach anonymity but uphold the organised-cum-institutionalised spirit of markets: the institutions now delve beyond property rights into the realm of social relations.

Relational Trading and Competition

Markets are traditionally an arena for competitive trading, whereas relational exchange is allegedly less competitive. The difference is starkest in the contrast between perfect competition with its atomistic price-takers and pure relational exchange with its paired trading partners. One entails unending price competition, the other no competition at all. A contrast of extremes understates the competitiveness of relational trade and overlooks its passive version. Rather than being anti-competitive, passive relations are a major component

of non-price competition. Firms challenge their rivals by having superior loyalty schemes that induce customers to make repeat purchases. Social links are nurtured not to stifle competition but to extend it into the non-price domain less damaging to sellers' profits. Sellers keen to avoid a price war will be happy to compete over the quality and range of their customer relationships. We are left with varieties of competition, as against a competitive/non-competitive divide.

Distinguishing between active and passive versions of relational trade can help to indicate its competitiveness. Broadly speaking, the looser and shallower bonds of passive relations are more susceptible to competition than the tighter and deeper ones of active relations. In passive relations, buyers can belong to several loyalty schemes and shift between sellers according to the product on sale, the discounts and other offers available, and the degree of trust. Few sellers command total loyalty from their customers. In active relations, the traders have a closer bond that requires frequent dialogue and may be governed by service contracts for a fixed period. Buyers have less freedom to move to different providers in the short term and may be legally unable to do so without penalty. The scope for competition is slim and pertains only in the longer term when contracts can be renegotiated and relations revised. Both types of relational trade rule out the anonymous price competition that might occur if trading bonds were absent.

Another criterion used to assess competitiveness is the number of traders, since competitive markets should have many sellers and buyers. Numbers are readily observable. A many/few distinction can be introduced on the same lines as for oligopolies, which involve a small but unspecified number of participants. As a guideline, few would be just a handful of sellers or buyers and many would be any number greater than this. For most consumer goods the number of buyers will be high, often measured in millions, and examples with few buyers will be scarce. It should nonetheless be feasible to find cases with all the combinations of many and few traders.

The active/passive distinction can be brought together with the numbers criterion to classify modes of trading. For relationships there are three possibilities ranked in decreasing order of competitiveness: none, passive and active. For seller-buyer numbers there are four possibilities: many-many, few-many, many-few and few-few. Trading relations and numbers

may be correlated (lower numbers should bring stronger relations), but for classification purposes it is best to let them vary independently. With three possibilities for relations and four for numbers, we obtain the twelve cases in Table 2.

Table 2. Alternative Modes of Trading

		Seller-Buyer numbers			
		Many-Many	Few-Many	Many-Few	Few-Few
	None	Case (a)	Case (b)	Case (c)	Case (d)
Seller-Buyer relations	Passive	Case (e)	Case (f)	Case (g)	Case (h)
	Active	Case (i)	Case (j)	Case (k)	Case (l)

By the relational criterion the top row in Table 2, devoid of social ties, is the most competitive. Truly anonymous trading happens rarely. For Case (a) the textbook example would be a commodity or financial market with a homogeneous product, many traders on each side, and a competitive ethos. Social ties will be limited but cannot be erased – empirical studies of financial markets have found that contacts and networking are more prominent than might be expected (Baker 1984; Knorr Cetina and Bruegger 2002; Sassen 2005). Cases (b) and (c) would probably be commodity or financial markets with few traders on one side or the other, leading to oligopoly, oligopsony and cartels (Alhajji and Huettner 2000; LeClair 2000). The side of the market with few traders would have market power and seller-seller or buyer-buyer collusion, which would reduce competition, though seller-buyer

bonds could still be absent. Case (d) is peculiar, as few traders on both sides would seemingly assist seller-buyer bonds to emerge. An example is an auction, organised to be an impersonal setting that accommodates one-off deals (McAfee and McMillan 1987; Smith 1989). Any object on sale has one seller and an unknown number of buyers who turn up at random on the day. Buyers compete over the price, the intensity of competition varying with the pool of potential buyers; it could collapse to zero if the single seller trades with a single buyer in attendance. Despite the doubts over competition, an auction can reasonably be called a market because of its formal organisation and impersonal sales.

The middle row of Table 2 has passive relational trading. Case (e) could be a market for manufactured goods with branded products but many participants on each side, corresponding to imperfect or monopolistic competition (Chamberlin 1962; Robinson 1969). Sellers try to generate brand loyalty in response to the threats posed by their competitors. Cases (f) and (g) resemble (e) but with fewer participants on one side and therefore prone to oligopoly or oligopsony, as stressed in monopoly capital theories (Baran and Sweezy 1966; Sawyer 1988; Foster 2014). Especially common is Case (f), which includes the goods and services produced by multinational corporations with huge marketing departments working on branding, advertising and customer relationship management. Oligopolists may have active seller-seller relations so as to minimise competition and protect their profits, but seller-buyer relations will be passive. Case (h) is less widespread, since passive relations among small numbers of buyers and sellers may well evolve into active ones. Examples are markets for luxury goods and specialised niche items that have few buyers and sellers but depend heavily on branding and weak social bonds (Chevalier and Mazzalovo 2008; Fionda and Moore 2009; Dion and Arnould 2011). Luxury brands tie up with famous designers or celebrities who become synonymous with the brand, offering the buyer a vicarious 'personal' experience in relational trading that remains passive.

The bottom row of Table 2 has active relational trading. Case (i) mixes a large number of traders on each side with a reliance on active relations. It can arise from bargaining, haggling or higgling, in which traders negotiate the terms of trade for each purchase (Geertz 1978; Fanselow 1990; Brown 1994; Mayhew 1994). No prices are published, all sales require face-to-face bargaining, identities are liable to be exposed, and frequent participants link up with regular partners. Cases (j) and (k) have active relations and market power on one side of

the market. Labour markets often exemplify Case (k): potential employers are limited compared with the numbers seeking work, each employer has many employees, and work organisation must be negotiated (Rebitzer 1993; Fleetwood 2006; Erickson and Mitchell 2007; Kaufman 2007). Case (l) is the epitome of relational exchange, with few participants on each side, little competition, and every deal customised through negotiation. Examples are the bilateral monopolies in certain economic sectors such as defence and health care (Markowski and Hall 1998; Pauly 1998). Standardised, anonymous trading is here at its lowest ebb.

Case (a) in the top-left corner of Table 2 comes nearest to a competitive market, for it has no social bonds and many traders on each side. It is not perfect competition, which should be dismissed as hypothetical, but has a more competitive bent than the other cases. Case (l) in the bottom-right corner is palpably relational exchange among few traders who have strong links. Orthodox theoretical logic would see Case (a) as a market and Case (l) as non-market exchange. The other cases, which mingle market-like and less market-like features, are ambiguous. Insisting that markets must have no social bonds would be too stringent, confining them to a small (empty?) subset of trade. One might be tempted to draw a horizontal, vertical or diagonal boundary somewhere through Table 2 and classify cases above or to the left of it as markets and cases below or to the right of it as relational exchange. Any such boundary would be arbitrary. Most trade has a relational element; 'anonymous' transactions may on closer inspection have hidden relations. In common parlance all the cases in Table 2 would be markets, even Case (l), and it seems sensible to recognise this. Actual markets are permeated by relational trading and differ in its nature and extent, not its presence or absence.

An alternative to a market/non-market boundary would be a scale of 'marketness' that ranks trade by its market-like features (Block 1990, Chapter 3, 1991; Storbacka and Nenonen 2011). On the relational criterion in Table 2 the most market-like feature is to have no relations, the least market-like is to have active ones, with passive relations in the middle. On the numbers criterion, the most market-like feature is to have many traders on both seller and buyer sides, the least market-like is to have few on both sides, with mixed cases in the middle. If the relational criterion has priority over the numbers criterion, then the ranking of marketness from top to bottom is: a, b/c, d, e, f/g, h, i, j/k, l. This way of prioritising reflects

the definition of markets as organised and institutionalised exchange (Hodgson 1988, Chapter 8, 2008). The most market-like cases are organised to reduce personal involvement; the less market-like cases rely on personalised arrangements. On the secondary, numbers criterion a greater number of traders should facilitate competition. Neither the relational nor the numbers criterion warrants a boundary or exclusion zone for market status, and all the cases in Table 2 can be described as markets, in line with ordinary usage.

The marketness scale from Table 2 has no normative connotations. Price competition is not assumed to be the ideal, as in neoclassical theory, nor does relational exchange have an efficiency rationale, as in transaction-cost economics (Williamson 1979, 1985). Whether trading relations are beneficial is a question capable of different answers in different circumstances. Like trade itself, they are voluntary and apparently gainful for all concerned. Some customers may be cajoled or enticed into joining loyalty schemes, perhaps unaware of the personal sales information they are revealing, though the choice is ultimately theirs. Various problems of privacy and security may beset electronic payment methods, yet people evidently value the convenience over the disadvantages (Belanger, Hiller and Smith 2002; Tsiakis and Sthephanides 2005). Loss of anonymity from the growth of passive relations has prompted little resistance, otherwise customer participation would be far lower. Viewed in a positive light, trading relations preserve trust and may be sources of advice, support, consultation, and shared knowledge. Passive seller-buyer contacts underlie non-price competition among firms, so they sustain competition in its practicable, non-price form. They can be flexible without rapid price movements, obviating the price flexibility championed by neoclassical theory (Jackson 2015). The overall picture is complicated enough to make one wary of blanket assertions about the benefits or dangers of relational trading. Each case should be judged on its own merits.

In any aggregate market, relational trading is an average across individual sellers and buyers, some of whom have stronger bonds than others. The diversity makes it harder to classify the market as a whole. Passive relational trade, in particular, coexists with non-relational trade: some buyers join a retailer's loyalty scheme, others stay outside it. The classification scheme of Table 2 applies only approximately in practice and should not be regarded as offering exact, mutually exclusive categories. Markets might embrace several

cases from Table 2, giving us further reason to draw back from a rigid market/non-market boundary.

Conclusion

The false dichotomy between markets and relational exchange obscures the fact that much trade lies in the middle, neither anonymous nor negotiated. Agents may know each other's identities and display loyalty without ever parleying to customise trade. Such an intermediate mode of trading has a relational hue but departs from what is usually termed relational exchange. It can be better understood if we distinguish weaker, passive relations from the active ones discussed in the economic literature.

Passive relational trading is rife in modern commerce, encouraged by marketing techniques. Crucial to these relations is their institutional nature. Firms plan them as a stratagem of management: the goal is to set up subsidiary trading roles of regular provider and customer that coexist with the core roles of seller and buyer. Customers can enter a passive relationship at little cost in time and effort merely by joining a firm's loyalty scheme. Loose connections ensue, looser than active negotiations, but enough to influence buying. The institutional nature of passive relations fits neatly into a definition of markets as organised and institutionalised exchange, with the organisation here carried out by the sellers.

Active relational trading seems less market-like than its passive equivalent. It still occurs within an organised setting, however, so its classification as non-market exchange remains problematic. In everyday language, trade with active negotiations has no agreed label beyond the generic word 'market'. Semantic difficulties suggest that any attempt to impose a market/relational exchange boundary would be disputed and unlikely to find acceptance. We should admit that relational trading is normal within markets and study it in both its active and passive versions. This would promote a more realistic portrayal of trading behaviour and a closer match between everyday language and economic theory.

Disciplinary borders have hindered research on relational trading. The most detailed studies have been undertaken in the marketing and management literatures, which now see seller-buyer bonds as pivotal to marketing by producers and retailers. While these studies are valuable in their own right, they are conducted with an interest in marketing rather than broader economic issues. The orthodox economic literature has modelled relational exchange as a market imperfection that should either be removed on efficiency grounds or explained as an appropriate response to transaction costs. Little has been done to investigate relational trading on a detailed, case-by-case basis, as if it were not a proper economic topic and best left to other disciplines. Academic specialisation has put the study of seller-buyer bonds outside the remit of economics and passed it over to academics in marketing and management. As a result, economists have missed the full significance of relational trading in an era of information technology and electronic marketing.

Among the questions that economists need to address are the welfare effects of relational trading. To regard it solely as incurring welfare losses through curbs on competition would be mistaken. Things are more complex than that and open to doubt. Relational trading can be a cooperative activity that permits customisation of items previously standardised. General improvements in welfare would seem to be possible. Yet trading bonds as marketing devices are seldom even-handed and cause asymmetries that favour the producer/seller. In passive relational trade, the sellers design the institutions behind trading contacts to pursue sales and profits, not welfare benefits for everybody. Even active relational trade, less formal and structured, still has asymmetries, with one trading partner tending to dominate and take the greater share of welfare gains. Relational trading may thus be a further avenue for the exercise of market power, as opposed to an example of balanced, mutually beneficial cooperation. These welfare questions have not been thoroughly explored in the economic literature, given its narrow treatment of relational exchange, and constitute an area for future research.

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