

## A Review of Social Exchange Relationship

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### Abstract

The relationship between employees and their organization is often described as an exchange relationship. Based on it, this paper reviews the social exchange relationship from seven basic principles, namely, reciprocity, negotiation, rationality, altruism, collective benefit, consistency of identity, and competitiveness.

**Key words:** Exchange relationship; Social exchange relationship; Principles

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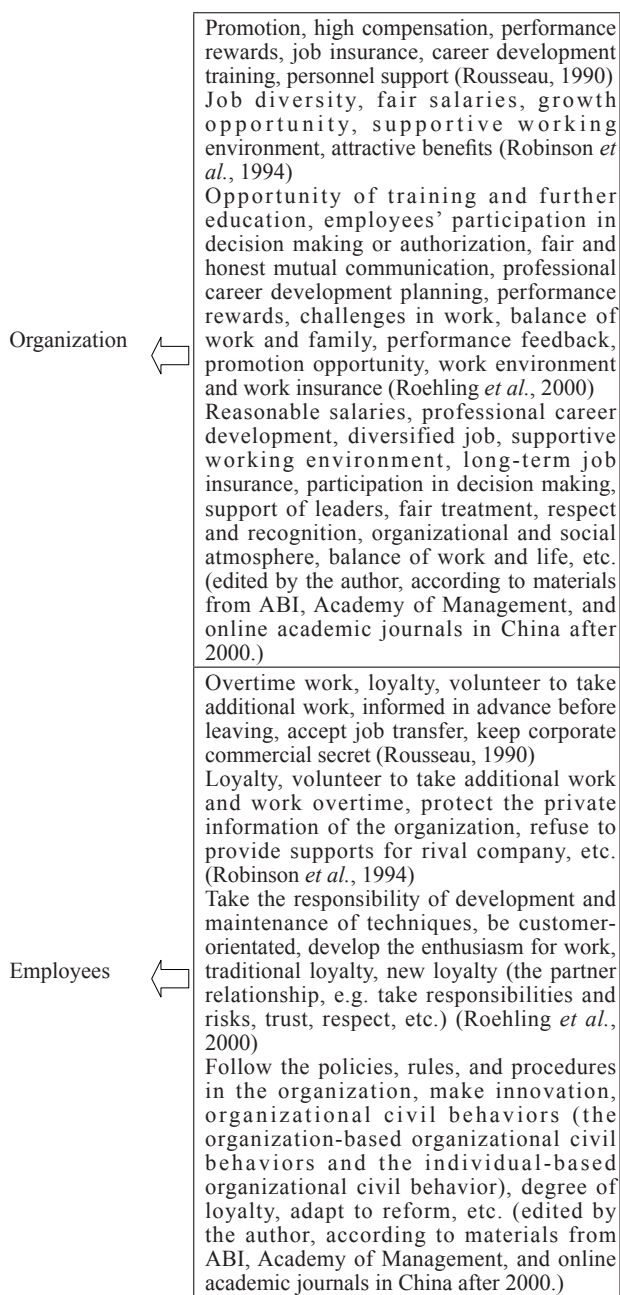
### INTRODUCTION

The relationship between employees and their organization is often described as an exchange relationship (Mowday, Porter & Steers, 1982). The exchange relationship initially refers to a contractual relationship with the purpose of exchange of interests between two subjects of interests. This contractual relationship might be explicit or tacit. The exchange is a process of organizing and realizing certain interest. Accordingly, in this paper the author defines the exchange relationship of employees and their organization as “a contractual relationship between

employees and their organization (i.e., the two parties in a labor relationship) with the purpose of exchange of interests”. The contractual relationship of employees and their organization can be explicit (e.g., the labor contract) or tacit (e.g., psychological contract). As researchers use the theory of exchange to explain the relationship between employees and their organization, a popular opinion is that the human behavior under the guidance of principle of exchange is the basis for other human behaviors and social relations, i.e. the purpose of employees paying extra efforts is to get more returns from the organization. The nature is “reciprocity”. All exchange relationships, without any exception, include the following four concepts, i.e. the actor, the resource, the structure, and the process. The participant in the exchange is known as the “actor”, which can be individual or group. As one actor has the assets or competencies that are valuable for the other party, the physical assets or competencies become “resources”. The resources for exchange could be tangible goods and services, or intangible items, e.g. various abilities attached to the actor. The actor tries to get more useful resources that are under the control of the other by means of the exchange process. This exchange relationship stays in a mutual dependent structure. The simplest exchange relationship is consisted of two parties, i.e. A and B. Each party controls the resources that are valuable for the other party. As the two parties in an exchange relationship fall into a larger exchange network, the network can provide more choices for, at least, one party. The actor with more and better choices in an exchange relationship is regarded as the party with “power privilege”.

Late 1930s, the academic researchers tried to interpret the exchange relationship of employees and their organization by “input”. Banard divided the input of employees into two categories, i.e. special input and common input. The two categories of inputs have the role of incentives. In particular, the special input means to take certain specific subject as the target, whilst the common input means general, instead of individual. The studies

of the contents of mutual inputs between employees and their organization are displayed in Figure 1.



**Figure 1**  
The Contents of Mutual “Inputs” of Employees and Their Organization

## SOCIAL EXCHANGE RELATIONSHIP

During the past 20 years, a lot of researches on organizational relationship came out. The theory of social exchange is regarded as a powerful analysis framework to understand the relationship of employees and their organization. It is the dominant conceptual paradigm to understand the behaviors in a working environment (Cropanzano & Mitchell, 2005). The theory of social exchange can be traced back to the 20s in 20<sup>th</sup> century

(Malinowski, 1922; Mauss, 1925). It concerns many academic fields, such as anthropology, social psychology, and sociology. Throughout the development history of social exchange theory, theoretical researchers conclude that social exchange includes a series of interactive behaviors with obligations. According to the theory of social exchange, these interactive behaviors are interdependent and determined by others' behavioral responses (Blau, 1964). The social exchange emphasizes the interdependent transactions with high-quality relationships.

### The Basic Principles for Social Exchange

A basic recognition of social exchange relationship is that the social exchange relationship will evolve into the trust, the loyalty, and the mutual commitment overtime. Based on this, the two parties in an exchange relationship must insist on some rules for the exchange, while these rules form a standard definition of the variable that two parties in an exchange relationship are in the context.

#### (1) The Principle of Reciprocity

The reciprocity of benefits or giving back in the same way is the most well-known principle of exchange. Gouldner pointed out that we should examine what the social exchange theory is in a trans-subject perspective. Gouldner published a classic paper, “The Principle of Reciprocity”, in the year 1960 in *American Sociological Review*. He mentioned: “The giving-back behavior is a ‘starting mechanism’ for social interaction and group structure. Its purpose is to achieve continuous benefits.” Gouldner clearly argued that there was ambiguity in defining the variable “reciprocity”. He pointed out the nature of “reciprocity” in the social exchange relationship and suggested three different types of “reciprocity”, i.e. (a) reciprocity is a transaction pattern for interdependent exchange relationship, (b) reciprocity is the belief hold by people, and (c) reciprocity is the moral code.

Reciprocity is a transaction pattern for interdependent exchange relationship. Generally speaking, there are at least three kinds of relationships between the two parties, i.e. complete independence, total dependence, and interdependence. Among the three kinds of relationships, the complete independence and total dependence do not belong to social exchange relationships (Cropanzano & Mitchell, 2005), because the social exchange needs a two-way transaction pattern, i.e. there is giving away and also giving back. Based on this, the interdependence that includes a two-way relationship is taken as a typical feature of social exchange relationship. As an important feature of social exchange relationship, the interdependence has reciprocity. The interdependence with reciprocity emphasizes on the interpersonal transactions, i.e. one party's behavior will cause relevant responses of the other party. Molm argued that the “reciprocal exchange” was a transaction pattern without obvious bargaining. One party's behavior is determined by the other party's previous behavior. Therefore, the interdependence can reduce risks effectively

and encourage cooperative behavior. When one party, at least, starts to “take actions”, the process of exchange begins. If the other party gives feedback, a new round of exchange reveals the prelude. As each action forms a self-reinforcing cycle and they also have continuity, it is difficult to take them as separate and independent procedures.

Reciprocity is a kind of folk belief. The principle of reciprocity contains people’s cultural hopes for “getting the things supposed to be in their possession”. The earliest description of reciprocal behavior can be traced back to the year 1932 in the book *The Crime and Custom in Savage World* by Malinowski. He pointed out that in the era of farming and fishing, people’s understanding of the transaction relationship had the following features: With the passage of time, all exchange relationships would reach certain fair equality; The party that refuses to offer helps to the other party in an exchange relationship should be punished; The kind party that loves to help the other in an exchange process would get some helps in future. In other words, all behaviors will trigger certain consequences finally. Thus, people agree that the belief-based reciprocity can reduce the possibility of destructive behaviors under certain circumstances.

Reciprocity is a moral code. Early in the year 1932, Malinowski *et al.* made it clear that the reciprocity is a cultural mandate. The violator would be punished to certain degree. As a moral code, the reciprocity has a typical feature, i.e. it contains the connotation of quality. Philosophers call it a “must”. It describes how an individual behaves. According to this logic, Gouldner assumed the principle of reciprocity is universal. However, subsequent studies show that people’s understandings of the value of reciprocity are diversified due to the differences of cultures and individuals.

## **(2) The Principle of Negotiation**

Negotiation is a way to achieve a win-win result by two parties. Compared with the principle of reciprocity, it tends to make expressions in a clearer way. The responsibilities and obligations of two parties in a transaction are easy to be understood and more specific. Apparently, the exchange by negotiation is only a part of economic transaction. For example, for a job offer, the employees and the enterprise negotiate about the compensation. Undoubtedly, there is negotiation in social exchange, e.g. team members negotiate about the distribution of tasks and duties. Generally speaking, the principle of negotiation obviously has weaker effects on the function of making employees produce a sense of trust and commitment than the principle of reciprocity does.

## **(3) Other Principles: The Principle of Rationality, the Principle of Altruism, the Principle of Collective Benefit, the Principle of Consistency of Identity, and the Principle of Competitiveness**

Throughout all documents about social exchange relationship, most studies focus on the principle of reciprocity and the principle of negotiation. There are

also other principles that have been researched more by sociologists and anthropologists rather than management experts. In the year 1971, Meeker proposed a well-known research framework for interpersonal exchange. He argued that interpersonal exchange could be taken as an individual decision making. So, these individuals need to be guided by a series of rules in making decision. Meeker presented six principles: the principle of reciprocity, the principle of rationality, the principle of altruism, the principle of collective benefit, the principle of consistency of identity, and the principle of competitiveness. Since the principle of reciprocity is discussed above, so the following works mainly focus on other five principles. According to the paper of *Decision and Exchange* by Meeker in the year 1971, the principle of rationality means to use the logic approach to establish the variable of possible consequence and make decision on how to get the valuable things by certain method. Therefore, a rational behavior includes two aspects, i.e. the maximization of the variable of consequence and the logics of method. Surely, Meeker clearly recognized that human behaviors were not always rational. Thus, he proposed the following principles of exchange. The principle of altruism: as a principle of exchange, it means trying to benefit the other party but not care about self interests in the exchange process; the principle of collective interests: the initial objective of an exchange behavior is to benefit the collective rather than individuals, and individuals can get what they need from the collective. Meanwhile, as individuals are capable of benefiting the collective, they would try their best to contribute to the collective. Here, this kind of exchange is a direct exchange process targeting not the individuals, but the collective. The principle of consistency of identity: the distribution of personal interests is based on the social position of the individual. The principle of competitiveness: this principle could be taken as the opposite of the principle of altruism. According to the principle of altruism, to support others means loss of self interests. According to the principle of competitiveness, to harm others also means loss of self interests (Meeker, 1971). In an economic perspective, this behavior seems to be no principle of rationality. However, in a real world, this principle does exist in the actual social exchange. The retaliation is an obvious example.

Social exchange needs a trust mechanism. There is not any effective method capable of assessing the value of returns because social benefits have no fixed prices. At the same time, the effects generated by certain benefits could not be clearly separated from other returns originated from social connections. Therefore, it is difficult to apply the principle of economic utility maximization to social exchange. In view of this, Blau proposed the five points that influence the process of social exchange, i.e. the development stage of exchange relationship, the characteristics of exchange relationship, the nature of transaction benefits, the costs of transaction, and the

social background for social exchange relationship. To apply the theory of social exchange to the employee-organization relationship has several key points deserving more attentions, i.e., the individual development and the relationship with his or her supervisor (Linden *et al.*, 1997), the relationship with his or her organization (Eisenberger *et al.*, 1986; Rousseau, 1989; Shore *et al.*, 2006), the level and the type of the relationship with his or her supervisor and the organization (Dulac *et al.*, 2008; Masterson *et al.*, 2000; Tekleab *et al.*, 2005). Stable and healthy research results show that there is close connection between social exchange and employees' contribution. The high-quality social exchange can result in employees' loyal commitment to the organization, improved organizational civil behavior, better job performance, and low quitting intention (Shore *et al.*, 2009).

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