

# **Exploring Ethics in Business Networks: Propositions for Future Research**

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## **Abstract**

In this study we introduce ethics as an emerging area of business network research. Our aim is to draw researchers' attention to ethics as a timely extension of the business network approach and to propose avenues for its future study. Business networks form a specific context for the study of ethics, yet only very little research has been conducted on the topic. Based on existing literature, we will first analyze the stands taken on defining ethics and ethical behavior in business relationships and networks. Secondly, we will address the significance of ethical behavior for business networks. To conclude, we derive four themes and a number of potential questions to be posed in future research on business network ethics. The study creates a contribution to the field of business networks by providing a state-of-the-art examination of the research topic and by laying a basis for its future study.

**Key words:** Ethics, business networks, exchange relationships, ethical climate, fairness

## INTRODUCTION

In current business environment, ethics and responsibility are emphasized as necessary values for successful business. Companies enforce ethical codes of conduct and stress non-harmful actions, expecting that commonly agreed principles would translate into actual business behavior. Cases like Enron (Sims & Brinkman 2003) and supreme mortgage crisis in US (Jennings 2008), Bangladesh garment industry tragedy (Peck 2013) and unethical supply chain practices in the smart phone industry (Garside 2013) have created awareness about ethical issues and shown that companies can suffer severe reputational and financial damage when their unethical dealings are revealed. When such cases are reported, they often involve a major scandal with serious impact not only on the company but the whole industry or even the international economy (Benady 2009; Marriage 2013; Taticchi, Tonelli & Pasqualino 2013).

Ethical behavior in everyday B2B interaction less seldom hits the news. Unethical behavior has potentially become a norm and generally accepted in the business network or the most powerful actors simply suppress the views of those who are not willing to play with questionable rules. For those who suffer from the consequences of unethical behavior it may be difficult to prove the harm done, and those accused of unethical behavior may easily denounce their responsibility on the matter. Yet, this does not mean that ethics would not matter. On the contrary, we argue that ethics is an important element in all business exchange.

In business networks companies are connected to each other through activity links, resource ties and actor bonds that generate interdependencies (Håkansson & Snehota 1995) conducive to ethical concerns. In networks of multiple actors, different viewpoints to business interaction are also present, and the interests of actors typically vary. In such conditions ethical norms of behavior function as an important governance mechanism (Gundlach & Murphy 1993), which in the long run may create healthy business that benefits the network and affects positively companies' competitiveness and performance.

Business exchange also occurs embedded in various temporal and social layers of the society (Halinen & Törnroos 1998) making it dependent on ethical considerations. Cultural values and industry-level practices that have become established over time or social norms like fairness, trust and reciprocity that have developed between individuals both importantly influence exchange. Through the globalization of markets, free availability of information and the pressing social and environmental problems affecting the globe ethical issues have increasingly become part of everyday business (Törnroos & Lindfelt 2006). Researchers argue that business networks are ethically embedded (Törnroos and Lindfelt 2006), ethical issues are critical for their functioning (Leonidou et al. 2015; Normann, Ellegaard & Mo/lle 2015), and therefore network research should also be concerned with questions and theories on ethics (Makkonen & Olkkonen 2014).

Ethical issues have long been on the research agenda of relationship marketing scholars (Hunt & Vitell 1986, 2006; Gundlach & Murphy 1993; Grayson & Ambler 1999; Brown, Cobb & Lusch 2006), but research focusing on ethics in business networks has been scarce. Within the IMP business network tradition, Törnroos and Lindfelt (2006) have been the pioneers of the theme and studied ethics as part of the economic value co-creation. They conceive ethicalness as a character of companies and networks in which value is created. Other scholars have recently opened interesting discussions, for instance, on the notion of

justice in supply chains (Higgins & Ellis 2009; Normann, Ellegaard & Møller 2015), on the limitations of ethical codes and legal directives in fostering ethical practices in project networks (Crespin-Mazet & Flipo 2009), and on the importance of networks and the broader social context for creating a proper understanding of ethics in B2B exchange (Ivens & Pardo 2010). Also some specific unethical behaviors have been raised into discussion, such as corruption (Salmi 2000) and betrayal (Leonidou et al. 2015). Unfortunately these ideas have not yet reached publications. Still they clearly indicate a perceived need to extend business network research into the area of ethics.

The purpose of this paper is to discuss ethics in business networks as an extension to current research and a potential new research area. For this end we pose three key questions for further scrutiny:

1. How has ethics been approached in business network research so far? In other words, to what extent this is a new territory for research within the domain?
2. For ethics to be a promising area of research, we need to ask why is it important for business networks, to their functioning and performance?
3. Assuming that ethics is a relevant area within business network research what kind of questions should be posed in future research to develop the area?

The study is conceptual and draws primarily on existing research on ethics within the IMP Network Approach, other network research traditions e.g. network organization and social networks, and the relationship marketing literature. Our aim is to engender new research efforts in this so far neglected area and to offer a solid foundation for future research.

The paper will proceed in the following way. Firstly, we will provide a basic theoretical understanding of ethics and ethical behavior in business networks, using moral philosophies as a starting point. Secondly, we will describe the characteristics of business relationships that make ethics an especially relevant topic to study in business networks. Thirdly, on the basis of existing literature we will suggest four themes and a number of research questions on network ethics to be examined in future research.

# **A THEORETICAL GROUNDING OF ETHICAL BEHAVIOR IN BUSINESS NETWORKS**

## **Ethics in relationship and network studies**

Ethics is a branch of philosophy (so called moral philosophy) that “involves systematizing, defending, and recommending concepts of right and wrong behavior” (Fieser & Dowden 2013). In business context it has been defined as the moral principles, norms, and standards of conduct that govern an individual or group (Treviño & Nelson 2004, p.13; Ferrell, Fraedrich & Ferrell 2012, p.6). Ethics thus sets the rules for acceptable behavior in business interaction.

Moral philosophy offers various theoretical approaches to ethics that provide ideal moral principles to guide individuals (Ferrell et al. 2012; Hosmer 1995). Perspectives widely used in business context include deontological, teleological or utilitarian, and virtue ethics (Ferrell et al. 2012; Hunt & Vitell 1986, 2006; Nantel & Weeks 1996). Deontologists believe that the action is justified when there is conformity to ethical rules or norms (Ferrell et al. 2012; Hunt & Vitell 1986, 2006). Teleologists and utilitarians emphasize the ethical consequences of the action to the related stakeholders; action is considered ethical if considering all its costs and benefits it creates the greatest potential utility as an outcome (i.e. the desired consequence) (Ferrell et al. 2012; Nantel & Weeks 1996; Hunt & Vitell 1986, 2006). Utilitarian ethics presumes that acting morally can also be rooted in egoistic motivations (Hosmer 1995) and as Ferrell et al. (2012) put it, organizations may end up with following the so called ‘enlightened egoism’ simply driven by an attempt to maximize their own benefits. Finally, virtue ethics sets ideals for individuals that require moral character, and leads to seeking good for others and having a respecting and benevolent attitude (Melé 2009).

All three theories of ethics have been applied in business exchange studies in some form. Higgins and Ellis (2009) take virtue ethics view to the extreme in the context of the supplier relationships: based on Levinas (1974/2004) they suggest that justice is demanded equally for every party no matter what is the distance between the parties and without expectation of reciprocity when adjustments to others are made. Ivens and Pardo (2009), in contrast, point out the insufficiency of the virtue ethics approach to business relationships. They argue that when assessing the ethicalness of B2B exchange the focus on relational virtues is too limited; assessment should also include the utilitarian aspect of non-harming consequences to possible stakeholders and the society at large.

Research with particular focus on ethics in networks is overall scarce. Besides the few studies within the IMP tradition a couple of contributions can be found from within other schools of thought. Drawing on the social network approach Brass, Butterfield and Skaggs (1998) focus on the social network structure as an explaining factor for unethical behavior of individuals, while Melé (2009) examines ethics in the interaction practices between people. Within the organizational research stream Daboub (2002) stresses the importance of ethically behaving business partners for company reputation and Daboub and Calton (2002) the climate of trust created through ethical conduct for efficient contracting. Santana, Vaccaro and Wood (2009) study the means by which managers attempt to control ethical issues in a network organization. Overall, very little is, however, known about ethics, its importance or its manifestations in interorganizational or business networks.

## **Ethical behavior in exchange relationships**

Ethical behavior has been scrutinized mainly at the level of exchange relationships without reference to the connected business relationships and networks. Extant studies emphasize both the role of personal relationships and fair sharing, when trying to answer the question, when is the exchange relationship ethical? These studies draw from different theoretical backgrounds, but the concept of fairness is a common denominator as well as the assumption that exchange is future oriented, and consequently, ethical exchange behavior is linked to such concepts as trust and commitment.

It is important to note that as an elusive, philosophical concept ‘ethics’ is rarely the key entry to ethically laden studies; instead some other concept is used, like justice (Higgins & Ellis 2009; Luo 2006, 2009), opportunism (Liu, Liu & Li 2014; Wathne & Heide 2000), the dark side of relationships (Grayson & Ambler 1999), or governance of exchange in general (Burkert, Ivens & Shan 2012; Wathne & Heide 2004). To create an understanding of ethical behavior in business networks it is necessary to look closer to these relationship level notions.

In Gundlach and Murphy’s (1993) treatment of relational exchange trust, equity, responsibility and commitment are required for fair exchanges to occur. The model of Murphy, Laczniak, and Wood (2007) takes a process perspective and explains how ethical behavior emerges. Adopting a virtue perspective they suggest that trust, commitment and diligence, defined as persevering effort to maintain the relationship, develop sequentially. In addition, these fundamental virtues should be paired with supportive virtues of integrity, fairness, respect, empathy and transparency, in order to achieve an ethical relationship. While these scholars consider trust and commitment as essential dimensions of ethical exchange, many other authors regard such relational bonds as outcomes of ethical behavior (Daboub & Calton 2002; Luo 2009; Melé 2009). To sum up, research has emphasized the foundations or principles on which an ethical relationship is built on (see e.g. Perret & Holmlund 2013), not the ethical behavior per se.

In contrast to ethical behavior research has mainly focused on its opposite, opportunistic behavior. The interest of research as well as business has been on how to safeguard exchange from the opportunistic behavior of the other party by using different governance mechanisms (e.g. Gundlach, Achrol & Mentzer 1995; Burkert, Ivens & Shan 2012; Wathne & Heide 2000). This viewpoint has dominated research to such extent that ethical behavior has often been inversely defined as “acting to prevent a substantial harm to others when an individual or group has an opportunity to do so for their own benefit” (Robin 2009, 140). In other words, ethical behavior means abstaining from opportunistic behavior.

The concept of justice, based on equity theory (Adams 1965), offers another view of ethical exchange behavior, putting a strong emphasis on fairness. Luo (2009) uses the notion of distributive justice to evaluate ethical exchange behavior, examining the outcomes – benefits, costs and risks – against the resource contribution of each partner. The evaluation stretches out to also cover processes. For this Luo (2009) suggests the concept of procedural justice that he defines as fairness in integrating the exchange partners’ views and hearing their voice in the decision making process.

Distributive justice and procedural justice are connected, yet being separate aspects of ethical behavior. Procedural justice signals to the actors that they will receive fair treatment and, by implication, fair outcomes in the future. Mutual respect and trust is present in the relationships and the partners are assured that they can work together and there is no partiality in managing the processes and procedures (Crespin-Mazet & Flipo 2009; Luo 2009). Although both concepts already include social elements, Luo (2006) has complemented the set with a third concept, the interactional justice, that emphasizes fairness in the interpersonal relationships through honesty, respect, understanding and courtesy.

Melé's study (2009) is exceptional in describing ethical and unethical behavior in a network. For Melé (2009) virtuous social networking relates to acting with good faith, sharing goals, acting in an acceptable way, sharing resources with reciprocity and benefits with fairness. The network can be used as a source of knowledge and other resources but with transparency and without deception. The suggested characteristics of unethical behavior, on the other hand, include abuse of trust, misuse of power, opportunism and cooperating to harm other network actors (Melé 2009) – all behaviors that may as well exist in business networks. The actors may have hidden intentions and the asymmetries that exist in their business relationships can lead them to take advantage of weaker actors.

To conclude, literature has provided two major approaches to ethical behavior in exchange relationships: the relational exchange view and the distributive justice perspective. Varying views exist on what is considered as ethical behavior and what are its outcomes. Furthermore, research has typically examined ethical behavior in dyadic relationships, focusing on strategic alliances, joint ventures or channel relationships, disregarding the network view.

## **SIGNIFICANCE OF ETHICAL BEHAVIOR FOR BUSINESS NETWORKS**

Business networks can be regarded as webs of interconnected exchange relationships, where companies interact with each other for the purpose of doing business. Ethical behavior in business interaction is crucial for the functioning of networks and for their sustainability. We base this statement on two key arguments. First, networks provide a natural arena for ethical concerns, as they embrace various actors interacting with each other with potentially divergent interests. Second, the nature of exchange relationships in business networks stresses the role of ethical norms and principles as a governance mechanism. These two issues will be shortly discussed next.

### **Networks as an arena for ethical concerns**

When ethics is concerned, the issue of how (or why) to find a balance between the interests of others and one's own are typically present. The principles of ethical theories give guidelines for determining how conflicts in human interests are to be settled and for optimizing mutual benefits of interacting individuals (cf. White & Lam 2000). Because the interests of the actors do vary and are sometimes also hidden, ethical problems and conflicts easily arise (Boyd & Webb 2009). This is also the case for business networks where the actors' interests typically vary and different viewpoints to business interaction are always present.

A further examination of the relationship features as depicted in the IMP business network view reveals that relationships almost inherently include an expectation of ethical behavior. The ethical behavior is embedded in the mutual orientation, required from the actors when

establishing and developing relationships with the purpose of well-functioning collaboration and value creation (Ford, Håkansson & Johanson 1986). This mutuality, which is a measure of how much a company is prepared to refrain from its own individual goals or intentions in order to increase the positive outcomes of others, and through this, to ultimately increase its own well-being, rests on a belief in the importance of collective goals of more than one company (Ford, Håkansson, & Johanson 1986). Thus, the companies are expected to move from the hardest bargains – market-based transactions – to the exchange that stresses relational aspects and focus on network interdependence and coevolution instead of the competitive aspects (Gadde, Huemer & Håkansson 2003).

### **Nature of exchange forming a rationale for ethical behavior**

Ethical behavior in networks is importantly influenced and shaped by the characteristics of exchange relationships, such as continuity, adaptation, informality, and (a)symmetries (Håkansson & Snehota 1995, 7). Whether voluntary or forced, relationships share these characteristics stressing the role of ethical and unethical behavior. Ethical behavior creates a potential for the relationship to prosper and sustain as a mutually rewarding arrangement, while unethical behavior can make the opposite party suffer in a locked-in relationship or to exit.

Business relationships are often established with an *expectation of continuity* (Håkansson & Snehota 1995). In a positive scenario repeated transactions and fairness experienced in them enable the relationship to develop and generate expectations on positive future outcomes and relationship continuation (Halinen 1997; Gadde et al. 2003; Hosmer 1995). In the course of time the increasing commitment and the trust between the actors is expected to turn into stability while keeping the networks dynamic and open to change (Håkansson & Ford 2002). In long-term relationships ethical behavior becomes even a precondition for positive outcomes to emerge. The mechanisms for this lie in the interdependencies that tie the firms together on several levels, for example, on technological and social, but also economical.

Long-term network collaboration requires *adaptations* and the relationship specific investments that are made result in complex interdependencies. These interdependencies evolve gradually as resources are used and created in the network (Håkansson & Snehota 1995). The investments that the actors are ready to make depend on the time perspective and on the gain they expect to receive. Ethical behavior can be expected to increase the willingness and readiness of the actors to continue their investments and working for the future competitiveness of the network while – at the same time – expecting to get a fair share of the value created (Praxmarer-Carus, Sucky & Durst 2013). Unethical behavior, in turn, may weaken the future prospects on outcomes and experiences of unfair sharing of outcomes may refrain actors from further adaptations (Hunt & Vitell 2006).

*Informalities* like interpersonal closeness and trust, emerge to complement the formal contracts and have an important role in adjusting the relationship and network activities (Håkansson & Snehota 1995). In their exchange relationships the network actors will start following the informal ‘normative contracts’ (Rousseau 1995), comprised of implicit understandings that embody common values, beliefs, norms, and expectations among business partners (Brown, Cobb & Lusch 2006; Luo 2009). The purpose of contracts in general is to clarify roles and expectations, to reduce ambiguity, uncertainty, and disagreements. The social elements of informal contracts have an important role in creating flexibility, in solving conflicts and even in preventing them (Brown et al. 2006). These social



bonds take time to develop, but their increasing strength can become a function of their problem solving capacity – and ethical behavior. The more the actors observe fairness in conflict situations, the more they are able to look beyond these single acts and weight the value of the whole relationship.

*In asymmetrical relationships* imbalanced possession and use of resources can give one company influence and domination over the other party (Holmlund & Kock 1996, Mouzas & Ford 2006). Asymmetric power-dependence relationships have been considered a structural relationship characteristic or portfolio-level issue (Dubois & Pedersen 2002; Mouzas & Ford 2006). Even when there is a 'joint consent' between the actors, the ethical issues that emerge as a result of the asymmetries are various, ranging from the unequal sharing of risks and benefits to limited development of resources and capabilities for cooperation, all issues that may require balancing activities from the less dominant actors (Mouzas & Ford 2006). In sum, continuity, adaptations, informality and potential asymmetries that characterize exchange relationships create conditions, where ethical norms have particular significance for relationship governance, and the actors' behavior as either ethical or unethical is likely to affect business performance.

## **PROPOSITIONS FOR FUTURE RESEARCH ON ETHICAL BEHAVIOR IN BUSINESS NETWORKS**

Ivens and Pardo (2010) argue for the need to extend the dyadic view into networks in order to understand ethics in B2B exchange. In line with the network thinking they emphasize the role of connected actors and posit that a business relationship can only be referred to as ethical if the positive outcomes it creates for the relationship parties do not produce negative effects to third actors. Törnroos and Lindfelt (2006) similarly stress the role of connected actors while proposing the notion of ethical embeddedness. They pinpoint the fact that a company's value creation processes are dependent on the relationships it has with its key counterparts. Ethically dubious activities by key counterparts may severely harm the value creation.

Based on the existing literature on ethics in networks and the fundamental characteristics of exchange in business networks it is possible to suggest topics for future research that would importantly extend our knowledge on ethics and its ramifications in multi-actor business settings. We will next propose four major themes and a number of related research questions where future research would be needed.

## **Theme 1. Ethical climate and conflicts in a network**

It is a common assumption that the values of individuals differ being dependent on the moral values and maxims of cultural, organizational, professional, and industry environments where people live and work (e.g. Hunt & Vitell 2006; Boyd & Webb 2008). Organizations (Klemm Verbos et al. 2007) and industries (Payne & Dimanche 1996) are known to construct particular ethical climates as part of their cultures that form the base for their ethical behavior. In a study of strategic alliances, Boyd and Webb (2008) specifically examine organization-level ethical climates and the potential conflicts their differences may create in strategic alliances. We also know that professions tend to emphasize ethical codes of conduct in order to cherish respect and trustworthiness towards their profession and to legitimize their activities in the society.

Based on these assumptions a number of intriguing questions emerge from the network research point of view. Could business networks similarly create a specific ethical climate? The concept of ethical atmosphere proposed by Lindfelt and Törnroos (2006) supports this option. Ethical atmosphere includes “questions of what is considered right or wrong and not only questions of economic, strategic and business sustainability between actors interacting in the network” (p. 341). For instance, could companies cooperating in new product development produce their own ethical climate?

In the formation of ethical climate different scenarios could be possible. The emergence and development of norms in business interaction might incrementally create a certain type of ethical climate to the network that all involved actors respect and maintain. Studies from tourism (Payne & Dimanche 1996) and construction sectors (Crespin-Mazet & Flipo 2009) indicate that norms and behavior may even be automatically transferred to new network entrants to be accepted, and acted upon.

An interesting research question relating to the mechanism of ethical climate evolution then emerges. Since an actor involved in exchange develops ethical norms with respect to the behaviors and principles of other actors (Macneil 1980), it could be assumed that ethical behavior spreads through the relationships, through actor bonds and activity links (Halinen, Havila & Salmi 1999), “contaminating” the network with positive or negative norms of conduct. The positive ethical climate and behavior in one relationship would foster ethically similar kind of behavior in another relationship. Or, the other way around, the experienced unethical behavior might create a counter-reaction by the party that has been treated in an unfair manner, making it reciprocate unethical actions to harm the others (Crespin-Mazet & Flipo 2009). Researchers should thus study the mechanisms of climate evolution, but they should also consider the role of single powerful actors and asymmetric relationships in the formation of ethical climate.

Alternatively, the network actors could maintain their divergent views on ethical norms and behavior based on their different organizational cultures (Boyd & Webb 2009, Klemm Verbos et al. 2007). Networks typically extend to different industries and professions and interaction occurs between various companies and organizations from different geographical areas and cultures. This means that networks necessarily function in an intersection of various ethical views. Hence, in contrast with the network-specific ethical climate, it might be even more probable that companies and their representatives have various conflicting ethical views

that then create a challenge for value creation, performance and continuity of business. Different ethical climates could develop in different disconnected parts of the network for instance due to geographical distance between supply chain members (Zakaria, Zanda & Sobeih 2012).

Related to this scenario several research questions also emerge: What kind of problems do the differing views on norms and behavior create for the functioning and management of networks? How do conflicting views affect value creation in networks? And how can differing views be reconciled?

## **Theme 2: Embeddedness of economic action in societal and social layers**

In business networks human behavior occurs within an economic and interorganizational context that provides a specific setting to examine the ethicality of behavior. In business networks, economic and social become intertwined, since economic exchange always occurs embedded in a broader set of social relationships and in time (Granovetter 1985; Halinen & Törnroos 1998). From the network ethics point of view this means that both the societal context of business as well as the social, inter-personal context forms an issue to taken into account.

The societal context of companies comprise of political, cultural and legal environments where their business is influenced by the interests of various stakeholders and where they also interact with a range of non-profit actors and organizations in order to safeguard positive conditions for their business (e.g. Hadjikhani 2000; Robin 2009). In these interactions companies need to reconcile between various different interests and adjust dissimilar value bases that bring them unavoidably in terms with ethical issues. In their study on competitive tendering in construction business, Crespín-Mazet and Flipo (2009) revealed the limitations of ethical codes and legal directives in fostering ethical practices. Also Ivens and Pardo (2010) emphasize the role of broader social context, different company stakeholders and non-profit organizations for creating understanding of ethics in B2B exchange. The stakeholder theory has commonly been applied in approaching ethical issues in business (e.g. Treviño & Nelson 2004; Robin 2009) and it has also been considered useful as it brings the society level into network analysis (e.g. Ivens & Pardo 2010; Törnroos & Lindfelt 2006). The question thus emerges of how companies cope with different societal actors with potentially different ethical standards to enable their business activities?

The notion of social embeddedness, in turn, involves the idea of business networks operating through a network of personal relationships. Business interaction occurs through individual people, who potentially expect to be respected and treated fairly. As Luo (2006) suggests interactional justice is an essential dimension in ethical business behavior. In industrial buyer-seller relationships, economic exchange has been regarded dependent on such social norms as trust, commitment and reciprocity (Turnbull & Wilson 1989), and personal relationships have been viewed as both enablers and constraints for business relationships (Halinen & Salmi 2001).

The question can be posed, whether perceptions of primarily interpersonal aspects, i.e. interactional justice, enhance the distributional justice, or are they independent dimensions of ethical behavior? The results of Brown et al. (2006) from channel relationships indicate that distributive justice is simply an overriding fairness criterion for companies and even if the social elements are in place these will not necessarily be associated with perceived fairness in

sharing economic outcomes. Yet, if there is a connection, could it even be that strong personal relationships harm the fair division of outcomes for the interacting companies, while people prioritize their friendship to the detriment of the business relationship? With a focus on social networks, Melé (2009) suggests that strong personal relationships can foster both good and bad behavior from an organization's point of view. Important research questions for business networks thus transpire: How do strong personal relationships and social networks potentially influence the ethicalness of people's behavior as representatives of their companies? What are the mechanisms through which ethical behavior of business people in their social networks affects the business outcomes either positively or negatively?

### **Theme 3: Creating value with ethical behavior**

For the purpose of value creation, ethics has been given an instrumental role in B2B context and it has been considered as part of the co-created "offering" (Lindfelt & Törnroos 2006; Ramirez 1999). While the previous research has focused on the ethicalness of the process, e.g. studying ethically driven value created in cooperation with end customers (Arvidsson 2008), we extend here the view towards its outcomes for business actors: the impact of ethics on their performance and satisfaction in the network and the significance of ethical reputation potentially accruing value for the actors.

The evidence we have so far of the positive outcomes of ethical behavior for business performance and satisfaction originates largely from dyadic relationship studies. According to Luo (2009) the distributional justice conceals an important performance mechanism: the experienced fairness in exchange and sharing its economic outcomes increases partners' commitment to cooperation, deters opportunism, lessens relational risk and reduces the need of monitoring. On the contrary, an unfair treatment of the partners may weaken incentives to ethical behavior and they may start working against each other's interests resulting in conflicts and instabilities (Luo 2009; Johnson, Korsgaard & Sapienza 2002). The study of Brown et al. (2006) on wholesaler-supplier relationships examined the connection between perceived economic fairness and satisfaction. When firms perceived that the economic outcomes were fairly divided and channel procedures fairly managed, this increased their satisfaction and reduced conflict with their channel partners. Expectedly, economic fairness was dominating over the procedural fairness, implying that procedural justice alone was not able to satisfy the partners, but satisfaction also required high distributive justice to occur.

Shifting the focus towards networks and assuming that they are able to develop an ethical climate of their own, it would be relevant to ask, whether a network exposing high ethical standards in its interactions (or a higher level of moral development, see Boyd and Webb, 2008) is able to outperform a network enacting lower ethical standards and a low level of moral development? Or could it be that in some specific conditions, unethical behavior – misusing power vis-à-vis other parties, abusing others' trust and using possibilities to self-gains in an opportunistic manner – would make companies economically better off? The temporal perspective to performance, whether short or long, is of course decisive when answers to these questions are sought.

In the connected business world good reputation is an important asset (Fombrun 1996), which recently has also been related to partnerships (Money et al. 2010; Wathne & Heide 2004), supporting the idea of examining value of reputation even for networks. A network's reputation forms a potential foundation for actors' expectations concerning network processes and outcomes (Money et al. 2010). Reputation can have ethics-related characteristics that

other organizations find important, e.g. an organization can be perceived as a fair negotiator. In the network context, positive reputation can have significance in attracting good quality partners (Cravens, Goad & Ramamoorti 2003; Money et al. 2010), securing the existing relationships and bringing new business to the network members (Hoejmose et al. 2014).

However, in a network all actors need to participate in building a positive image. Reputational risks form a real threat since any member may easily damage a good reputation if engaged in unethical activities (e.g. Christopher & Gaudenzi, 2009; Daboub 2002; Lindfelt and Törnroos 2006). In the future researchers should take a careful look at the various types of value ethical reputation potentially creates, and also investigate the construction of reputation in a network setting. Highly reputable companies may be important flagships for reputation building, but it is equally important to consider that even the least visible or resourceful actor, may easily turn out to be the weakest link and ruin the reputation.

#### **Theme 4: The role and manifestations of ethical behavior in different types of business networks**

Networks have been classified according to their purpose, temporal orientation, whether its members are horizontally or vertically positioned in relation to each other and whether the technological change occurring is radical or incremental (Möller, Rajala & Svahn 2005). We posit that depending on the type of the network, ethics may manifest itself differently and specific ethical questions may appear.

The studies assessing firms' ethicalness, justice and performance have mainly focused on examining long-term relationships. However, considering the temporal orientation, we can for instance compare long-term, vertically structured networks to those established for temporary purpose. In the former, the purpose has potentially already crystallized, activities of network members and norms of behavior are well-defined and the interdependencies between the parties are likely to encourage them at least to maintain the current level of ethical behavior. On the contrary, in the latter case, where relationships do not yet have a common history in terms of developed social ties and interdependencies, ethical behavior may be much more of a challenge. The companies are potentially not concerned about the future continuation of the cooperation, and there are simply fewer incentives to form a morally sustainable approach towards the other actors. This observation has been made for instance by Crespín-Mazet and Flipo (2009) in short-term project networks, where asymmetrical power positions allow opportunistic behavior towards the more weakly positioned network partners.

Controlling of unethical behavior is relevant in horizontal cooperation, e.g. between competitors. Since the networks they form are often characterized by fast technological change and innovation, the ethical questions that arise concern principles of knowledge sharing and the risk of leaking information. Due to the intangible nature of knowledge the ethical questions are also likely to concern the measurement of equal contribution and the avoidance of free-rider problems (Melé 2009). However, even in vertical supply networks, major variation in behavior is likely to occur; the long-term orientation is not a guarantee of ethical behavior. Asymmetries can produce fairness-related problems, and depending on the strength of the economic ties and intensity of interaction, suppliers may be differently favored and rewarded (Gadde & Snehota 2002).

We may thus assume that different type of networks potentially foster different types of ethical norms and behavior. Since there is little research on ethics in business networks, future research should address the most basic and descriptive questions such as how ethical behavior manifests itself in different network contexts.

## **CONCLUSION AND IMPLICATIONS**

In this paper we have argued for the relevance of ethics in business networks and examined ethical behavior as a potential new area for business network research. We first set out to investigate how ethics has been approached in business network to determine the extent it is a new territory for the research domain. We found that the topic has only recently been brought up into discussion even if ethics forms an inherent dimension of all human behavior including business interaction. Research has long dealt with ethical issues in business exchange focusing on relationship level scrutiny of ethically laden concepts like justice, opportunism, governance or dark side of relationships. In contrast, ethics has rarely been investigated at the network level as related to other connected relationships. This omission counts for both business network research and research on other business-related network traditions. In reviewing the literature we could not find any theoretical model proposed to understand ethical behavior in business networks. We may conclude that network ethics definitely is a new territory of business network research.

We also asked why ethics is important for business networks in order to demonstrate its relevance as a research theme. In globalized business different interdependences, cultural values and political interests intertwine with business interaction and ethical issues thereby have become a concern. International political requirements for responsible business and sustainable development have also emphasized the ethical aspect of business. As nested structures of different interests business networks are vulnerable to ethical conflicts. Business relationships cross over various political, national, and cultural boundaries. Moreover, as business relationships are characterized by continuity, adaptations, informal bonds and asymmetrical power relations the role of ethical norms as a governance mechanism is emphasized. Based on our analysis we argue that business networks form a natural arena for ethical concerns, and that ethical norms function as an important governance mechanism for business networks. Ethical behavior makes networks to emerge and keeps them going; it is likely to contribute to the stability of relationships and to contribute positively to the perceived satisfaction, reputation, and performance of networks. Yet, all this is mainly founded on theoretical reasoning, supported by only very scarce empirical evidence.

We thus wish to suggest ethics as a relevant extension to business network research. To contribute to the research field we posed one more question to be answered: what kind of research questions should be studied in future research to develop the area?

Based on existing literature on ethical issues in business context more broadly, and in interorganizational network research in particular, we identified four major themes potentially relevant for business network research. These themes are broad and provide a basis for several intriguing research questions to be posed in future research. The theme of ethical climate and conflicts concerns ethical behavior and its emergence in a network setting, among several actors combined with interactive relationships. The theme of embeddedness of networks in societal and social layers puts emphasis on ethical behavior in different cultural,

political and social contexts, and the influence of for instance personal relationships and national politics on it. The theme of value creation through ethical behavior pays attention to the potential of ethical behavior in improving performance, building a favorable reputation or even a competitive advantage for a network. Finally, the fourth theme points out the need to study and compare ethical behavior in different types of business networks, where relevant dimensions of ethics are likely to vary. All themes encompass a managerial viewpoint too, i.e. how the ethical behavior could be better recognized by business managers and how it could be used to create a better performance for companies and networks.

As a final note we want to stress that business networks form a complex object of study and studying ethics in such complex structures necessarily adds difficulty. Ethics combines philosophy to business, moral norms to economic efficiency, which is renowned a difficult alliance. The debate on whether business ever can or should be ethical dates back to centuries. The whole concept is easily perceived among business actors as moralizing from part of the researchers and simply improper to be used in business context. The domain of business ethics is also conceptually complex. Ethics interferes with several concepts that have long been studied in business exchange literature, making a systematic literature review a daunting task to complete. A conceptual map of existing research would, however, be most welcome to clarify what all ethics might entail in this context. Methodology creates another challenge: it is potentially difficult to get access to reliable data on ethically sensitive issues. Despite the challenges the topic of ethics pose for research, we encourage network scholars to tackle the issue, and hope that the four themes we distinguished for future research form a helpful basis for such an endeavor.

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