ETHICS AND VALUE CREATION IN BUSINESS RESEARCH – COMPARING TWO APPROACHES

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Abstract

This conceptual paper focuses on ethics and its role in creating value in inter-firm co-operation. Up until now, ethical issues have been mainly associated with the Stakeholder research approach. We claim, however, that it can also be used when adopting a business network approach. A conceptual overview is made of value creation and ethics. The paper also makes a comparative analysis of the two different research approaches, i.e the stakeholder and business network perspective, for ethical issues and value creation.

Key concepts: business networks, stakeholder approach, business ethics, ethical embeddedness, business culture, globalisation

INTRODUCTION

Value creation in contemporary industrial business is a complex and multi-faceted issue, in which new aspects are emerging. Developing functioning relationships and mutual investments between companies are key activities for industrial market actors (Håkansson & Snehota 1995, Ford (ed.) 2002). One aspect of this is the formation of threads of connected networks between business actors whereby value is co-created. Outsourcing and the utilisation of globally oriented suppliers and market relationships are key issues when developing business relations. The use of new technology, global logistics and information systems is also a part of this process. There are, however, many other current issues and

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events that are of critical importance in value creation between companies. One specific issue of increasing relevance in business and theoretical studies, in the wake of globalisation, is the role of ethics in business settings (see e.g. Pearson 1995, Takala 2000, Halme 1997, Dienhart & Curnutt 1998, Sen 1995, 1999, Gaumnitz & Lere 2002, Rutledge & Karim 1999, Weiss 2003, Wilson 2000, Wienen 1999, Wheeler et al 2002, Törnroos 1997, Tucker et al 1999, Nijhof & Rietdijk 1999, Kujala 2001, Aaltonen & Junkkari 1999, Carroll & Buchholtz 2003). Current research on business ethics often seems to adopt the perspective of Pearson (1995) who argues that a firm has business integrity. This entails that whilst business cannot embrace the same ethical codes practiced by individuals in their private lives, it cannot be entirely lacking in ethics. Essentially this perspective advocates that business must function in a business context, but with moral integrity (see also Gaumnitz & Lere 2002 and Halme 1997). This approach should be viewed as an alternative to two other theoretical perspectives on business ethics. The first is the *theory of amorality*, which upholds that business should be amoral and therefore immune to ethical ideals in society (e.g. Friedman 1982). The second theory is the *theory of moral unity*, which implies that the ethical standards of society include business as well as other parts of life. (Steiner & Steiner 1997)

Reasons for the rise of ethical concerns in business are many-sided and complex. Here we will briefly present a number of them:

- <u>more transparent and open information availability and use across the globe</u>

Due to the growth of the Internet and the rapid spread of multinational business information one can discern a time-space compression phenomenon at work. News and information are rapidly spreading over the globe and ICT-technology is increasingly enabling a global reach for many. Mobile technology and commerce will also ensure a more direct global information flow. Customers and consumers in emerging markets are joining the global economy, most notably China, India and the so-called “Tiger economies” of South-East Asia. Globalisation also means the creation of similar tastes, preferences and consumption patterns across many countries and regions (Parker 1998). The spread of information and access to new markets also affects business-to-business relationships and concerns an increasing number of suppliers and buyers in new areas and regions.

- <u>the proverb “business is business” has been to some extent replaced by more social and environmental concerns</u>

Ethical aspects have already previously been noted as important factors in business encounters. This phenomenon begun in the 1960s, when issues of product safety and marketing practice were noted by the so-called “activist school of thought” in marketing (Sheth et.al. 1988). Environmental concerns also began to emerge, highlighted by the publication of Rachel Carson’s “Silent Spring” (1962). These issues have developed through business and industry initiatives, such as the Rio Declaration of 1992 and Johannesburg 2002. One can also cite the increasing integration of environmental issues with the market and key interest groups of many corporations in the communication field, as can be seen when one views the home pages of forestry corporations or chemical industries. Ethical and environmental issues have been used as strategic tools for many companies. Issues such as child labour within companies, environmental damage and the impact of investing in Third World countries are notable examples of this trend. The use of child labour in the production of LDCs has been discussed, for example, in the Hennes & Mauritz-case. Environmental issues have been brought up in the campaigns of Greenpeace, such as that concerning the pulp and paper sector in the early nineties. Companies are also joining organisations and “Clubs” in which environmental and ethical issues are pinpointed (e.g. *CSR Europe, Finnish Business in Society, UN Global Compact, Global Sullivan Principles, The Caux Round Table*)

- <u>globalisation of markets creates new supply and demand relationships for companies as well as between institutional actors</u>

Business relationships have been complemented by the criticisms of environmental and consumer groups. Contemporary environmental groups are relatively professional in their use of modern communication methods and have a global information system, which monitors the actions of different companies. Within organisations, such as the UN and especially the EU, environmental regulations and issues have been formulated which also affect industrial marketing and production, transport and logistics and the use and re-use of products. The EU, for example, has passed the so-called *EU Convention for the protection of human rights and fundamental freedoms,* which is based on the *Universal Declaration of Human Rights.* The EU Commission also launched a green paper for corporate social responsibility in 2001.

Discussions in the EU Parliament concluded, however, that corporate social responsibility should remain voluntary (*Legislative acts…* 5049/03)

- <u>In many cases environmental issues have a more direct bearing on business than before. Consumers and businesses are more cautious when making decisions related to potentially harmful products and/or services</u>

Nowadays, consumers and industrial buyers can be more selective when looking for suppliers regarding the input of items for final consumption. Image and environmental reputation can be of decisive importance. Environmental groups can often play the role of watchdog and can affect the image of a company. A good example of this is illustrated by the Greenpeace campaign against Finnish forestry practices (Törnroos 1999).

- <u>Economic scandals and corruption</u>

Economic scandals - such as the ENRON case in the U.S., Parmalat in Italy, the Brent Spar oilrig affair in the U.K., Shell in Nigeria, the Nestlé baby milk substitute scandal in the Third World and the Exxon Valdez disaster in Alaska - bring ethical issues to the forefront of business strategy, management and image building. These type of scandals have a "global" effect on company image as it affects their relationship to authorities and their credibility in the eyes of the public.

In summary, because of these issues ethics in business influences the value-creation process in many ways. It is therefore important to consider the interaction of companies in regard to their supply and market relationships. The development of relationships with different types of institutional actors is crucial for a company. Examples of institutional actors include EU officials, trade unions and environmental groups, and in most cases, they should be taken into consideration when forming business relationships. The activities of these groups can have a bearing on strictly "business" related value mechanisms. German buyers of paper products, who refuse to handle products that have not been approved by Greenpeace or the World Wildlife Fund (WWF) (Lindfelt 2004), illustrate an example of this. It can also be important to monitor environmental effects of corporate actions and assess the reputation of a company and its related network. Consultancy bureaus have found this niche and now scan and index the ethical behaviour and principles of major international firms. This is a service relied upon by many financing firms when choosing a particular company to invest in.

Ethical issues also relate to cultural aspects of business. A key aspect of global business is formed by the manner in which the business community understands ethics and how it affects communication and business transactions. Ethical considerations fluctuate considerably between nations, but the globalisation of business means that cultural and ethical issues become crucially important. In other words, the ethical aspects of business might form a new and critical source for value creation between companies acting in global business markets. This topical issue is very broad, however, and demands further specialised examination beyond the scope of the current paper.

This paper is addressing the ethical context in which global industrial firms act in industrial markets. Ethics has not been studied explicitly within the IMP-tradition relating to interaction and networks in business marketing. Consequently, there is a lack of conceptual tools in order to research a phenomenon evident in all modern global industrial firms. How can one understand, in conceptual terms, the complexity of ethical issues in business settings? How can ethical issues be researched in business networks? This conceptual paper departs from the two current theoretical standpoints concerning value creation between industrial companies. The first brings to the fore a Stakeholder perspective for analysing value creation. The other perspective is the Business Network approach (INT) developed by the IMP-Group.

It is our argument that a gap in research exists regarding the role of ethics, especially in relation to business marketing. In this area, as we have noted above, ethical issues have come forcibly to the fore. It is important to develop concepts and theoretical tools for studying the role of ethics in business marketing from a network perspective and its role in value creation between companies. Both the stakeholder and network approaches to business marketing suggest examining firms in relation to other firms and/or interest groups/organisations. The basic premise of this paper is that if one elaborates on these two distinct research theories, one can generate new conceptual tools. Such an approach would utilise the theoretical standpoints of both the tradition of ethics research as well as the tradition of industrial network research.

The main objective of this paper is to make conceptual and analytical comparisons of the ethics and value concepts in these two research traditions. Furthermore, to develop a conceptual tool for further research on ethical issues and value creation in managing relationships in international business networks.

In the first section of the paper the concept of ethics and its role in value creation in general global business is scrutinized. In the second section the business network approach and value creation perspective are presented. The third section carries out a comparative conceptual analysis of the basic proponents of both the Stakeholder and the Business network approach. This addresses some key issues dealing with theoretical views and the value-creation perspective of both approaches. This is undertaken because much theoretical discussion has revolved around the Stakeholder perspective of ethics and value. The final section of the paper concludes with implications for research and practice.

ETHICS AND VALUE CREATION FOR GLOBAL BUSINESS

Business ethics has been a subject of research in recent decades and many suggestions exist as to how it can be defined (see Arrow 1979, Bowie 1979, Dienhart & Curnutt 1998, Fleckstein & Huebsch 1999, Gordon & Miyake 2001, Sen 1995, Nijhof & Rietdijk 1999, Chonko 1995, Laczniak & Murphy 1993). Some researchers include various notions of *corporate social responsibility* (e.g. Steiner & Steiner 1997), *sustainable development* (e.g. Brytting 1998) and *corporate governance* (e.g. Fernandez-Fernandez 1999), and some include definitions more directly related to morality (e.g. Brytting 1998, Beauchamp & Bowie 1979). There is no agreement upon the distinction between the terms 'ethics' and 'morality'. In this paper, however, ethics is defined according to Treviño and Nelson (1999:12), who state that it is: "the principles, norms, and standards of conduct governing an individual or group". Consequently, business ethics is the applied study of what is good and evil, right and wrong and just or unjust in the actions of a firm or of the market in general. (Steiner & Steiner 1997:180, Beauchamp & Bowie, 1979:2, Nijhof & Rietdijk 1999:40, Velasquez 2002:1)

The first studies in business ethics were undertaken in the 1960s by business researchers, and emerged as a separate field of research in the 1970s (De George 1987). A great deal of research has used the Stakeholder approach and explored norms of managers, firms and business students (Nijhof & Rietdijk 1999, Laczniak & Murphy 1993, Chonko 1995). The growing interest in this area has more recently led to research on ethical issues, cultural plurality and value dispositions for international business. (Dienhart & Curnutt 1998:5, Treviño & Nelson 1999:6-7).

Value

Understanding of the terms value and value creation has differed greatly. Marx (1906) argued that value is not inherent in a commodity, but is rather a relation between persons and expressed as a relation between things. In a similar manner, Porter (1985) defines value as what a customer is willing to pay for a product or service. Cheney and Vibbert (1987), on the other hand, view values as those factors deemed important and basic by individuals or groups. Schwartz (1992), Parolini (1999), Schultz and Zelezny (1999) all define value differently to the above named authors. On the one hand, philosophers mainly use value as an attributive or a predicative. Sociologists or anthropologists, on the other hand, usually use the concept of value as a substantive. Examples of this include economic value, protected value, existence or preservation value, moral values or self-oriented values, social values, capitalist values, liberal values, socialist values, green values and democratic values (Österman 1995:116, Baron & Spanca 1997, Roxbee Cox 1997, Aldred 1997, Sen 1999:261). One important definition is posited by Stückelberger (2002), who distinguishes between value perceptions of ethicists and economists:

> "In ethics, "values" denote orientations standards and objectives which guide and steer people's actions. They are constitutive for every cultural, social and economic system and thus also for economic action. In the economy, "values" denote the exchange, utility and capitalized value of goods, and serve as a yardstick for their scarcity. The value is measured against demand, usefulness and relative rarity. "Value" also denotes the financial earning power of companies (shareholder value). The economic notion of value is older than its ethical counterpart." (Stückelberger 2002:41)

In his categorization, Stückelberger notes that the concept of value used in ethics is constitutive for economic action. Thus, Stückelberger simultaneously blurs and distinguishes the denotations. Consequently, it is essential to stress the fact that the context of value adopted in this paper is determined by business markets in an international setting. In this article value is defined according to Anderson and Narus (1999:5): "Value in business markets is the worth in monetary terms of the economic, technical, service, and social benefits a customer firm receives in exchange of the price it pays for a market offering". We note that in this definition the benefits a firm receives must be closely tied to the contextual setting. The image-value and reputation of a business counterpart have to be included. Suppliers' suppliers and customers' customers, as well as institutional actors in the network, should also be considered within this concept of value in business markets and marketing.

Value creation

Philosophical literature can be helpful in order to understand how value can be created in different ways. Lewis distinguishes between two main value types: extrinsic value and intrinsic value (Lewis 1950, ref. by Österman 1995:44-45). *Intrinsic value* is something valuable in itself. An entity can also be valuable in an *extrinsic* way, or in other words, for another purpose. Lewis divides this latter concept as being of either instrumental or inherent value. An *instrumental value* is given to an item only in terms of how well it can be used for another purpose. Value is focused on its instrumental usefulness. An *inherent value* is perceived as useful for something external to it. A good example of this is a valuable piece of art. The art is intrinsically valuable because people perceive it as having a high price. Production of the piece of art, however, is also valuable because it in turn leads to a valuable piece of art. Thus, whilst art has an inherent value, the process of producing it has an instrumental value. (See Figure 1)

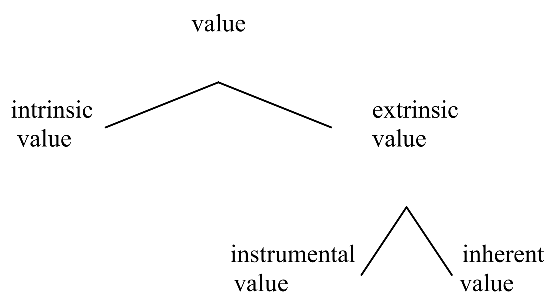

Figure 1: Lewis' categorization of value. Model based on Österman, referring to Lewis (1995:44).

The type of value referred to in marketing and business literature is more often than not extrinsic value. Raw materials are usually thought of as having an instrumental value and the sold product is often referred to in spoken English as having an inherent value. When attempting to understand the value creation process, one not only benefits from a concise definition of the concept of value, but also from being able to analyze the sense in which value is being created – most likely in this case in an extrinsic sense. In concluding, one can state that a multitude of definitions exist concerning value and value creation. One must now address the question of the various ways of understanding value and value creation in the stakeholder approach as opposed to the industrial network approach.

A BUSINESS NETWORK APPROACH TO VALUE CREATION

The INT (industrial network theory) approach focuses on network metaphors to explain industrial market structures, relationships and positioning. It has a disciplinary background in marketing and purchasing and is orientated towards structure and process research. A common feature of INT is that researchers regard a business organization as embedded in the industrial environment. The industrial market is characterized as only having a small number of identifiable actors or organizations. These actors are constantly exchanging products and services and thus form relationships with each other. These exchange relationships to a large extent influence business organizations and their activities. (Turnbull & Valla 1986, Håkansson & Snehota 1990, Doz & Pralahad 1989:359) Researchers have attempted to categorize the broad scope of research centered on INT (e.g. Easton et al. 2002). When surveying 93 abstracts of the 16th Annual IMP Conference in Bath, they coded no less than 53 categories, including network position, strategy, norms, trust, relationship and atmosphere. These were reduced to five principle categories: 1) relationship, 2) network, 3) prescriptive, 4) contingency and 5) miscellaneous. Due to the large theoretical basis of INT, it is difficult to succinctly describe its content. It has been noted by Törnroos (2002:27), however, that INT researchers have not advanced ethics. One study has researched value created through ethical principles (Lindfelt 2004). Firstly, what does the network approach claim about value creation? Secondly, how does ethics fit this value creation perception?

Due to connectedness between actors, value is not perceived as being created in a chain of activities (cp. Porter 1980, 1985). Instead, the use of complementary assets and the resources of connected actors result in networking. A number of network researchers write of joint buyer-seller value creation and co-production of value. (e.g. Ramírez 1999, Ulaga 2001 and Walter et al. 2001). They regard value creation as a co-productive activity, as opposed to a resource-based activity between two or more actors. According to Ramírez (1999), consumers do not consume value, but are participants in creating value. The traditional view, he claims, is concerned with value chains, added value, three-sector models and a perception of a firm or activity as units of research. The co-productive value creation view is concerned with co-invented and combined values, which cannot always be measured. Ramírez (1999) sees exchange (not value) as a function of utility and rarity. Furthermore, he therefore argues that the three-sector model is no longer pertinent. Thus, according to Ramirez (1999), interactions or offerings are the units of analysis in research. If applying Ramírez's thoughts to an ethical context in industry, it could be beneficial to view an ethical aspect as an offering. Subsequently, an ethical tool would be a unit of analysis - an offering that brings additional or complementary value. Ethics as a variable would create value for both the customer and the supplier in the interaction. If adopting a wide notion of embeddedness, this view of value co-production would not only include relationships with business partners, but also with financiers, employees, society and the secondary customer. This notion of embeddedness is advocated by Ulaga (2001) and Walter et al. (2001). Ulaga argues that three different perspectives can be noted regarding the construct of value creation: (1) customer value creation via products and services (2) supplier value creation via customer equity and (3) joint buyer-seller value creation, which takes place in networks. Walter et al. (2001) have a similar categorization, arguing that value creation is the foundation upon which relationships are built. The direct functions of the relationships include the activities and resources of the firms that create values in both directions, without involving a third party. The indirect functions, on the other hand, include the wider network of partners and future partners. In conclusion, Ramírez (1999), Ulaga (2001) and Walter et al. (2001) form part of their perception of value co-creation based on the buyer-seller relationship, and how they together create and consume value. According to these authors, ethics can also be seen as a value creating variable. It should be stated, however, that to the best of our knowledge, no research has thus far utilized this perception of value and ethics in an industrial marketing context.

THE STAKEHOLDER APPROACH IN RELATION TO THE INT

Although there is evidence of very early stakeholder concepts, researchers tend to agree that the stakeholder approach first became a coherent construct in 1984, with the publication of Freeman's Strategic Management - A Stakeholder Approach. Since the publication of this groundbreaking work, several researchers have developed its basic tenets, even speaking of a Stakeholder approach of the firm (e.g. Brenner 1993 and Brenner & Cochran 1991, cited by Rowley 1997). Freeman (1984:25) defined the stakeholder as "any group or individual who can affect or is affected by the achievement of the firm's objectives". The latest addition to a type of stakeholder is the natural environment (Brytting 1998). A common theme for researchers has been to classify stakeholders into categories in order to understand the influence these have on the firm - and vice versa. One usually sees stakeholders as resource dependent or institutional. One can cite four different theories applicable to the stakeholder approach: 1) a normative theory aiming to explain why managers should consider certain stakeholders, 2) a descriptive theory which describes a corporation and the conditions under which a stakeholder is considered by management, 3) an instrumental theory outlining the power of stakeholder management, and 4) the Freeman theory, or in other words, a metaphorical theory of stakeholders (Freeman 2000/1988, Donaldson & Preston 1995, Mitchell et al. 1997)

The stakeholder approach does not use the term “embeddedness” in its vocabulary. Rowley (1997:888), however, argues “the density of the stakeholder network surrounding an organization and the organization’s centrality in the network influence its degree of resistance to stakeholder demands”. This passage comes very close to the essence of both the positioning concept, and the embeddedness concept as used in the Business network theory. A clear difference, however, arises in the way Rowley (1997) describes the different ways in which a firm can resist and react to stakeholder pressures. The business network approach, on the other hand, emphasizes the co-operation, synergy and co-creation of the value of relationships in an embedded firm. It is important to note, however, that Rowley introduces the term “network” into the stakeholder approach - in the sense of a stakeholder set and based on social network theory. Rowley develops two new terms: the centrality of the focal firm in the network - defined as the relative position of the firm- and the density of the network, which he defines as the interconnectedness of the environment. These should not be confused, however, with the IMP-Group perception of business networks and positioning. The Stakeholder approach relies partly on a combination of the resource dependence view, agency theory and transaction cost theories (Mitchell et al. 1997). Rowley encourages stakeholder researchers to go beyond the resource dependence view of a firm by advancing a stakeholder set, or network view towards a relational context. This narrows the gap between the stakeholder approach and the business network theory. One major difference that remains, however, is that the stakeholder approach sees the interests of the stakeholder and the firm as two opposing factors, whilst the network approach views a mutual interest stemming from each part in the dyadic relationship.

The stakeholder approach on value and value creation

Twenty years have passed since Freeman’s seminal work, yet there is still an ongoing debate regarding whether it constitutes a theory in its own right. A similar situation can also be seen with the INT approach. Freeman’s definition of a “stakeholder” has been modified in several ways, resulting in definitions that are either broader or narrower. Despite these different definitions, a core idea, however, has remained constant: organizations need to address stakeholder expectations, and management of a firm consequently becomes a function of stakeholder influence. (Rowley 1997:889, see also Mitchell et al. 1997) Freeman's original definition is of the broader type, whereas Clarkson (1994) proposes a narrower version. He distinguishes between voluntary and involuntary stakeholders and argues:

> "Voluntary stakeholders bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm. Involuntary stakeholders are placed at risk as a result of a firm's activities. But without the element of risk there is no stake" (Clarkson 1994:5).

Clarkson uses the term "value" - a characteristic of the narrow view of stakeholders - in direct relevance to the firm's core economic interests and/or moral claims. (Mitchell et al. 1997) Value is not often mentioned in stakeholder research, although Freeman (1994:415) addresses this issue when arguing that the firm and the stakeholder are in "the human process of value creation". This reflects Freeman's broad definition of a stakeholder. Donaldson and Preston (1995), in describing the stakeholder, argue that the interests of all stakeholders are of intrinsic value: "That is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners." (p. 67). Kochan and Rubinstein (2000) argue that it is the fair distribution of a firm's created value - maintaining its commitment to multiple stakeholders - which distinguishes the 'stakeholder firm' from the 'shareholder firm'. They also argue that stakeholders need to add value to ongoing operations in order for a so-called stakeholder firm to succeed.

The stakeholder approach on moral claims and business ethics

Thus, the stakeholder approach is concerned with issues concerning the identity of stakeholders and their influence. The stakeholder can have moral, legal or property-based claims that make him or her a legitimate authority. The main objective of this approach is managerial - placing managers at the centre of a nexus of relationships - and it is often used in organizational and managerial research. (Mitchell et al. 1997) The emphasis of this approach is on explaining and predicting how an organization functions in its relationship to the environment. (Rowley 1997) Research also focuses on stakeholder management, stakeholder analysis and the stakeholder model. Nonetheless, the stakeholder approach has traditionally focused on dyadic relationships. In the business network theory, the basic unit of research is also the dyad. The focus, however, is usually lifted to the network level, which concentrates on interaction, connectedness and co-creation of value, synergy and mutual benefits.

Only in the late 1980's were the first attempts made to use the stakeholder approach explicitly as a framework for organizing business and society topics. Subsequently, several authors have adopted such a framework, which is where business ethics finds an arena. Indeed, some researchers have even advocated the stakeholder approach as the central paradigm for the business and society field (e.g. Jones 1995). In order for ethical behaviour to create value for a firm, it is necessary to show that the firm's outlook will reflect the moral sentiments of its top management - and that stakeholders will be able to assess this morality with reasonable accuracy. (Jones 1995:417) Jones writes that corporate morality is judged by its sincere manner and its reputation. This is reflected in a firm's policies and decisions and consequently in its direct dealings with its stakeholders. According to Jones (1995), it is likely that this has a cumulative effect on its reputation. Thus, what is seen is a spiral of value creation and the generation of competitive advantage.

As for the study of ethics, it can be concluded that the instrumental stakeholder approach contains analysis of corporate social responsibility (CSR) as a way in which a firm gains benefit from stakeholder management. The normative stakeholder approach, on the other hand, focuses on interpreting the function of a corporation, which includes the identification of moral claims on and philosophical guidelines for the management of the corporation. (Donaldson & Preston 1995). Jones (1995) argues at length that the instrumental stakeholder approach is in fact a synthesis of economics/business and ethics. He calls this the business and society field, and traces its development to the research of figures, such as, Preston in 1975 and Carroll in 1979. This eventually led to Freeman's (1984) stakeholder model. It can be argued, therefore, that from its conception, ethical issues have been relatively central to the stakeholder approach.

A conceptual comparison between the approaches

Perspective	The stakeholder approach	The INT approach
Focus	Traditionally on dyads between stakeholders and focal organizations	Ultimately on relationships and networks
Concepts for partners	Stakeholders are: a) resource dependent or b) institutional	Actors (individuals, departments and firms)
The focal firm in relation to other partners	Resists and copes with different claims on economic, legal and moral responsibilities	Characterized by connectedness, interaction and mutual benefits in cooperation between actors
Value	Rather thin reference to value; moral value more apparent than economic value	Contains much discussion on value creation in business networks
Value creation	Value is created as a result of managing the relationship and meeting demands from stakeholders, which gives heightened status	Value is co-created in the network through interaction and investment in relationships
Ethics	One of the first approaches to combine business and society fields	No explicit view on ethics
Theoretical foundation	No common consistent frame of theoretical assumption	Relatively consistent theoretical foundation
Methods	Appears to be more conceptual - theorizing to bring managerial implications	Appears to be more qualitative - often based on empirical case studies to form a theoretical framework
Relationships	Relationships often contain diverse interests	Relationships are seen as developing through simultaneous interaction between the actors, including common interests

Table 1: A tentative comparison of the stakeholder approach and the industrial network approach through selected perspectives.

In summary, there are a number of perspectives on which the stakeholder approach and the INT approach differ. These are listed below in Table 1. A common feature of the two approaches, however, is that they are both in a middle range phase. Neither one of them can offer a tool for researching ethics issues and value creation. The stakeholder approach does emphasize moral aspects but contains no deeper value discussion, whilst the INT approach emphasizes the discussion of value and downplays moral and ethical issues.

ETHICAL EMBEDDEDNESS – DEVELOPING A THEORETICAL TOOL/CONCEPT

In his well-known article Economic Action and Social Structure: The Problem of Embeddedness (1985), Granovetter discusses the actions of a firm in relation to the environment. He criticizes research traditions that portray economic actors as atomised units, arguing that they behave and decide in a context of embedded "ongoing systems of social relations" (Granovetter 1985:487). Researchers cannot agree on the composition of these social relations. Within the IMP-Group, one can see both a wider and a narrower view of embeddedness. Törnroos (1997) shares Granovetter's opinion and argues that social networks are implicitly part of business network research because companies are interconnected with other actors in the socio-economic environment. Business networks can only be understood if one understands the social embeddedness of a business. Both business and non-business actors play varying roles dependent on time and context (Törnroos 1997). This wider view of embeddedness is also embraced by other IMP researchers and others using the network metaphor in business studies (see e.g. Monge & Fulk 1999, Gulati et al. 2000, Möller & Halinen-Kaila 1998, Welch & Wilkinson 2002, Hadjikhani & Sjögren 1995, Hadjikhani 1996).

One also finds authors who adhere to a narrower view, in which business networks consist of activities carried out explicitly by business actors striving towards set goals. (e.g. Forsgren & Johanson 1992, Håkansson & Johanson 1988, Hertz & Mattsson 2001, Snehota 1993). The firm is therefore explicitly embedded in a business network.

What, therefore, are the implications for studying ethics in an industrial context? According to Granovetter (1985), industrial firms exist within a social context, and consequently interact with society. A wider understanding of the concept of embeddedness includes non-business actors in the business environment. In order to improve its network position, an industrial firm can initiate actions aimed at business actors or other actors in a business context. In doing so, an industrial firm that observes ethical aspects in its relationships to the business network participates in an ethical relationship with other actors in the network. The use of ethical tools, offerings or relationships can influence a firm's network position, whereby ethical aspects become part of a strategic action taken to improve a network position. In this paper it is argued that a firm's relationship to environmental issues displays its ethical embeddedness. Consequently, a new term - "ethical embeddedness" - can be used to define a firm's ethical position in business networks.

A firm's ethical embeddedness is thus defined as the relationship the firm has to ethical issues in the business environment.

CONCLUSIONS AND IMPLICATIONS

Business marketing management looks at the way in which companies interact and create value through business interaction. In doing this, significant interest has been shown in the role of value and value-creation (Parolini 1999, Anderson & Narus 1999, Ramírez 1999, Ulaga 2001 and Walter et al. 2001). Value has been defined relatively narrowly in most cases and has been mainly treated as having a direct economic value only as a result of relational investments. The network approach takes up aspects like co-value production and the connected and embedded nature of companies positioned in a web of actors. The international and global dimensions are giving value-constellations and embeddedness a more complex character. Economic 'win-wins' scenarios form the focal point of interest in the development and investment in business relationships.

The Stakeholder approach of a firm has dealt with value and ethics from a more general viewpoint than the INT approach in business marketing. The Stakeholder approach has a broader societal viewpoint and *responsibility* is a key word in structuring the stakeholders of a company. Diverse interests often reside in relation to a company and the organisations forming the stakeholders around the firm. The following concluding points concerning these two approaches can be made:

1. The Stakeholder approach has a broader view than the business network approach. A basic premise of the Stakeholder approach is: What is the role and structure of the modern corporation in society and what are its responsibilities towards diverse

interest groups? A basic starting point for the INT approach is to understand the role of connected actors in the value-creation process, taking place in interaction between companies belonging to the business network involved with the firm.

2. The narrow definition of a stakeholder is close to the business network approach (see Freeman 1988).

3. The Stakeholder approach attempts to understand the responsibility of managers in contemporary society and how a corporation is affected by the law and different societal groups. The focus of the business network approach is usually on industrial marketing and purchasing relationships.

4. The Stakeholder approach does not focus on individual relationships and value creation through relationships. It concentrates on responsibility and builds structures around groups that have an interest in a company in society. Interactive and mutual aspects are downplayed, whereas stress is placed on the diversity of interests and considerations concerning values and ethics among stakeholders.

5. Business networks are defined as sets of connected exchange relationships. Their basic units are actors, activities and resources. Consequently, this means that activities and resources are pinpointed, and are not responsibilities and societal norms as within the stakeholder approach.

Adopting this perspective, network value can be said to consist of some key issues and some notes are directly connected to the notion of network embeddedness.

First. The business network approach envisages firms as connected to other actors in the value creation process by way of bonds and investments, which are handled by interactive processes between these actors. This means that value is created through relationships with other key actors in the connected network, such as suppliers and secondary suppliers, customers and the firm itself, as well as with important service providers and key interest groups (institutional actors). The role of owners is not seen as relevant in this kind of reasoning. A number occupy key value-positions in a firm's network and some have a more indirect value-creating role. Over time these value-creating roles can become stronger or weaker depending on the situation.

Second. Ethical embeddedness notes how one type of value creation process is manifested through the relationships a company has with its key counterparts. It also observes their reputation and image in the market arena and in the eyes of larger interest groups and the media. It can be embedded in a business network where some connected actors have a bad reputation and conduct ethically dubious activities. It can affect the reputation of the whole network, and value-creation can be at risk for some time. One can observe this phenomenon in most companies. Direct and indirect links and bonds between actors and acts can be seen as important mechanisms.

Third. The concept of position is a key issue when looking at a firm embedded in a network of relationships. Strategically firms often strive for a certain position, or “core competence”, in the value-creation process in the network in combination with other business actors. Co-creation of value occasionally makes positioning problematic. A company is not “alone” when it strives for a desirable strategic position in the network and industry where it operates. “Value constellation” has been used to describe this phenomenon (Norrmann & Ramirez 1993) Aiming for a specific position in a business network necessitates dealing with many issues (know-how, image & reputation, technical skills, supplier base, logistics, production design etc.). Value is formed and created through a mixture of many of these elements. Ethical value is one factor that can also have a role to play in providing a positive image for its customers, the final markets as well as in the eyes of institutional actors, investors and the general public.

Fourth. Value creation, therefore in essence also deals with forming an ethical image and reputation suitable for the market in which a company operates. The firm itself is in a key position to create this through such things as ethics codes and fair and environmentally friendly actions, as well as through safe, sound & long-term ethical objectives. This can be an extremely difficult task, especially for industrial companies using natural resources and acting on global markets.

Words and deeds must coincide, and from an industrial perspective it is a dangerous policy in the long term for a company to do otherwise. It takes time to build up a positive reputation, but the power of the global media can ruin this in a couple of minutes, as was witnessed with the cases of Enron, Parmalat, Nestlés baby-milk formula and Union Carbide in Bhopal.

Fifth. The investment concept is used in a specific way in many business network studies. Investment in network terms means to invest in relationships with other key actors. Mutual value is created through these investments. In this case, value is a constellation of different value-creating parts. Ethical issues have come to play a key value-constituting role in business in contemporary society. It can be hard to build up a positive and well-grounded ethical business, especially when connected to other firms in this process.

Theoretical implications include building a conceptual framework for the role of ethics from a business network approach, together with empirical studies on the role of ethical embeddedness in the value-creation process of companies.

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