ETHICAL BUSINESS-TO-BUSINESS EXCHANGE: A REVISED PERSPECTIVE

Competitive Paper

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Abstract

Purpose of the paper and literature addressed:

There is increasing interest in ethical questions in marketing. Most contributions to the marketing ethics literature refer to business-to-consumer situations and take an actor-focused perspective. Ethical issues arising on business markets characterized by inter-organizational exchange and network structures have received much less attention. This paper attempts to reduce this gap. It focuses on the specific question under what conditions exchange between companies can be qualified as ethical.

Research method:

To achieve the purpose of the paper, the authors review articles providing sets of criteria for evaluating the ethicality of relational exchange. Using a case study they then challenge these criteria.

Research findings:

The authors conclude that concepts such as trust, equity, responsibility, or commitment are not sufficient for judging the ethicality of exchange.

Main contribution:

Propositions are made as to how the current perspective on ethical business exchanges should be revised. The authors suggest going beyond the current thought world by considering externalities, stressing the norm of harmonization with the social matrix, and adopting a stakeholder-network perspective.

Key words:

Marketing ethics, business ethics, case study, exchange norms, externalities, stakeholder-networks

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Abstract

There is increasing interest in ethical questions in marketing. Most contributions to the marketing ethics literature refer to business-to-consumer situations and take an actor-focused perspective. Ethical issues arising on business markets characterized by inter-organizational exchange and network structures have received much less attention. This paper attempts to reduce this gap. It focuses on the specific question under what conditions exchange between companies can be qualified as ethical. For this purpose, the authors review articles providing sets of criteria for evaluating the ethicality of relational exchange. Using a case study they then challenge these criteria. They conclude that concepts such as trust, equity, responsibility, or commitment are not sufficient for judging the ethicality of exchange. Propositions are made as to how the current perspective on ethical business exchanges should be revised. The authors suggest going beyond the current thought world by considering externalities, stressing the norm of harmonization with the social matrix, and adopting a stakeholder-network perspective.

INTRODUCTION

Business exchange processes between suppliers and their professional customers are a rich and multifaceted object of academic research. They are often characterized by continuity, complexity, symmetry and informality (Hakansson and Snehota 1995). Interaction is at the heart of business exchanges (Hakansson 1982). In practice, while certain companies are commended by public actors such as NGOs and journalists for the way they manage their sales or purchasing interactions with stakeholders such as suppliers or customers, others are severely criticized. For example, Nespresso under the supervision of Rainforest Alliance invests in building a supply chain with coffee farmers respecting fair trade principles (Alvarez, Pilbeam and Wilding, 2010). Puma holds regular meetings with suppliers from different tiers to discuss CSR issues. At the same time, Monsanto is suspected to lock in small farmers and exploit their lack of power (Glover 2007; Nachtigal, 2001).

The forces shaping economic exchange processes have been studied from several perspectives. Among others, legal, institutional and ethical frameworks have been developed in order to explain transactions (e.g. Macneil, 1978; Williamson, 1985). Currently, practitioners, scholars and other observers alike are refocusing the discussion around the *ethical dimensions of business exchanges*. This discussion is grounded in the business ethics literature.

Business ethics is "*the study of business situations, activities, and decisions where issues of right and wrong are involved*" (Crane and Matten, 2005, p.8). Marketing ethics is a sub-discipline of business ethics (Bartels, 1967). Interestingly, a vast majority of articles dealing with marketing ethics focuses on consumer markets. Literature on ethical issues on business markets is scarce (Higgins and Ellis, 2009; Lindfelt and Tornroos, 2004).

Both, the broad consumer marketing ethics literature and the more narrow business marketing ethics literature, are often concerned with evaluating to what extent marketing activities are ethical. The focus is predominantly on individuals (marketing managers, sales people etc.) and their decision-making behavior (e.g in pricing, sales force supervision, or in information collection and analysis, see Hunt and Vasquez-Parraga, 1993 ; Chonko and Hunt, 2000). Several authors have formulated sets of criteria to judge whether an individual's choice for a given behavioral alternative in a decision-making situation can be described as ethical or not. For example, in their theory of ethics Hunt and Vitell (1986) view an individual's perception that an activity involves an ethical issue as trigger of a process in which the individual evaluates alternatives of action. They distinguish between a deontological and a teleological perspective for evaluating alternatives.

The focus on individuals has its limits in business marketing. This specific context does not involve individuals alone. Rather, business exchange takes place between organizations in which groups of individuals interact in often times complex processes. In line with this specific context, Bartels posits that ethics need to be considered in terms of "*a specialized process involving role relationships and interactions*" (Bartels, 1967, p. 21). In fact, the traditional perspective in business marketing leads to adopting either the position of the supplier or the position of the customer to analyze ethical issues. For example, one would discuss unethical supplier practices toward customers. But this perspective does not allow capturing the full richness of business exchanges and their importance in a given context. Consequently, when examining the ethicality of business interaction processes scholars have moved from a focus on individuals to the dyad in which exchange takes place.

Such an enlarged perspective is without doubt more appropriate than the individual actor focus alone. However, we argue that it is still insufficient to grasp the full complexity of the question whether a specific business exchange is ethical or not. Our purpose is to propose a revised and enlarged perspective on ethical business exchange. We suggest that interaction and network concepts anchored in the perspective developed by the *Industrial Marketing & Purchasing Group* (IMP, see e.g. Hakansson, 1982; Hakansson and Snehota 1995) may be a good basis for analyzing ethical questions on business markets as compared to the actor-focused approaches developed so far in the marketing literature and the dyad-focused approaches provided by the business marketing literature. Furthermore, we propose that externalities of exchange be taken into account when evaluating the ethicality of business exchange.

The remainder of this paper is structured as follows. First, we provide a brief overview of different perspectives developed in the field of marketing ethics and we review specific contributions business marketing scholars have made to the study of ethics in business exchange. In particular, we present sets of criteria scholars have formulated in order to establish if business exchanges are ethical. We then use a case study in order to test the validity of these criteria. We conclude that the criteria specified by scholars so far are insufficient to establish if an exchange is actually ethical or not. We propose a revised approach to establishing the ethicality of business exchanges. This approach draws upon three concepts: relationship externalities, the norm of harmonization with the social matrix, and the stakeholder-network concept.

BUSINESS ETHICS AND MARKETING ETHICS

The number of academic contributions dealing with ethical questions is rapidly increasing. This trend reflects concerns public opinion is expressing more and more clearly and the resulting pressure many companies resent to justify their business activities in ethical terms. Nantel and Weeks (1996) propose to summarize the main perspectives along which ethics are analysed in business under a utilitarian or a deontological view. This distinction has been largely adopted by authors discussing ethical questions in specific areas of marketing.

In marketing, ethical questions have received attention since the 1960s[1] (e.g. Alderson 1964, Bartels 1967, Twedt 1963). Murphy and Laczniak (1981) observe that "*the function within business firms most often charged with ethical abuse states is marketing*". The two last decades have witnessed an increasing interest in the topic "*with more depth and breadth of coverage and more publications in mainstream marketing journal*s" (Nill and Schibrowsky 2007, p. 257). Typical ethical issues marketing managers are confronted with comprise bribery, untruthful advertising, price discrimination, dumping practices, attracting teenagers to smoking or alcohol, confidentiality, or manipulation of data (e.g. Baumhart 1961, Chonko and Hunt 1985). Some authors explain the growing interest in ethical issues in marketing through the particular "visibility" of marketing practices (Nantel and Weeks, 1996; Nill and Schibrowsky, 2007; Saini and Krush, 2008), for example when companies interact with consumers. For Watkins & Hill (2005), it is the very nature of the marketing function that explains this interest. For these authors the "boundary-spanning" position of the marketing function and the "*diversity of interests it assimilates*" make it more susceptible of unethical behaviors (Watkins & Hill, 2005, p 255). Another explanation often advanced lies in a belief that companies must provide "societal meaning" where classical institutions (religion, state, school) are less and less able to do so in a meaningful way.

Despite the growing literature, Nill and Schibrowsky (2007) observe that "*there still is no generally accepted definition of ethics in marketing*" (p. 269). Oftentimes, definitions focus on a single aspect of the issue but do not grasp marketing ethics in a comprehensive manner. One of the broadest definitions available stems from Singhapakdi and Vitell (1990) who define marketing ethics as "*an inquiry into the nature and grounds of moral judgments, standards and rules of conduct relating to marketing situations*". Saini and Krush (2008), along with Hunt et al. (1989) and Cohen (1993) pose that "*there is an unstated expectation that responsible marketing should not intentionally violate social contracts or cause harm to any of the parties involved*".(Saini and Krush, 2008, p. 846).

Hunt and Vitell (1986) analyze how such violation or harm can be avoided. They suggest "*that the ethical decision-making process depends on the role of individual moral philosophies*" (Nill and Schibrowsky, 2007, p.269). In their framework of marketing ethics, Hunt and Vitell distinguish between a "deontological" perspective and a "teleological perspective" – this last one replacing the "utilitarian" view developed for instance by Nantel and Weeks, 1996 - (Hunt and Vittel, 1986; Hunt and Vitell, 2006). In a "deontological" perspective, marketing behavior is ethical when it is respectful of certain norms, i.e. when the actors respect "*personal values or rules of moral behavio*r". It is a question of "*rightness or wrongness of behaviors*" (Hunt and Vitell, 2006, p. 3). In a "teleological perspective", the ethical behavior is one whose *consequences* are desirable for each stakeholder. Both perspectives are complementary. Whether marketing is defined with regard to the "satisfaction of customers' needs" (classical definition) or with reference to "the creation of value for different stakeholders" it remains highly utilitarian, and in a way "naturally" ethical if we follow a teleological approach. The works of Hunt and Vitell (1986) and Nantel and Weeks (1996) complete the utilitarian perspective through the formulation of deontological principles.

Another group of authors draws on *virtue* ethics or *character* ethics (Murphy, Laczniak and Wood, 2007) to contribute to the utilitarian and deontological approaches. According to Murphy (1999) and Murphy et al. (2007) the teleological and deontological approaches describe "obligations". "*Principal ethics involves a set of prima facie obligations while virtue ethics posits*

[1] For a literature review on Marketing Ethics see for instance Nill & Schibrowsky (2007)

a set of ideals to which individuals aspire" (Murphy, 1999, p. 111). Two important characteristics of virtue ethics can be mentioned. First, virtue ethics is not a problem of decision making; it is a problem of people, of individuals. It is not the decision which is described as ethical or unethical but people. Second, virtue ethics "*can be applied to organizations*" (Murphy, 1999, p. 111). The idea that a company can be "virtuous" is important when considering the question of ethics in business to business marketing.

ETHICAL DIMENSIONS OF A BUSINESS TO BUSINESS EXCHANGE

THE INDIVIDUAL ACTOR PERSPECTIVE

Business relationships are a highly relevant empirical phenomenon. Several streams of literature grounded in competing theoretical paradigms discuss aspects of business relations such as their structure (e.g. Hakansson, 1982), governance issues (e.g. Macneil 1978, 1980), evolution (e.g. Dwyer, Schurr and Oh 1987), and outcomes (e.g. Bowman and Narayandas 2004) or performance criteria. But the topic of ethics in the business to business field has hardly been addressed. A possible although radical explanation would be that business exchanges between companies is unethical by nature because corporations are cold monsters pursuing interests that are contrary to any human values. Or, on the contrary, that business exchanges are fundamentally ethical, for example because they focus on value creation and, thus, enhance the welfare of society. An alternative explanation may lie in the fact that most of the works on ethics on marketing have taken an "actor" perspective - and more precisely an "individual actor" perspective (managers, salespeople etc.).

Virtue ethics constitutes a notable exception. It discusses the ethicality of organizations. This idea was also supported by Lindfelt and Tornroos (2004): "*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*" (p. 2). But this perspective is rarely developed further. Most of the time, when "ethicality" is discussed at the level of a company (Enron, Worldcom etc.) this is a shortcut to talk about the ethical behaviors of the company's employees. For example, Piercy and Lane (2007) study business to business exchanges by focusing on the ethical behaviors of strategic account managers. Saini and Krush (2008) analyse the ethicality of the marketing function (as a subunit of the company) but are also concerned with individual marketers' behaviors. Watkins and Hill (2005) study "*two distinct industries (i.e., buying firms and selling firms) that represent business-to-business trading partners*" (p. 256) and identify consequences of personal and organizational ethical behaviors. Yet, their work is based on a simulation, not on real observations.

Few authors have truly discussed issues of inter-organizational marketing exchanges and ethics. The most prominent contributions, so far, have been made by Gundlach and Murphy (1993) and Murphy et al. (2007). In both articles, the authors formulate criteria along which business exchange can be evaluated.

Gundlach and Murphy (1993) describe the interplay of law and ethics in the governance of exchange and discuss the question when a specific type of exchange, i.e. relational exchange, can be considered to be ethical. They posit that "trust, equity, responsibility, and commitment are required for fair and open exchanges to occur" (1993, p.41). They argue that the rationale for a party such as an organization to rely on these dimensions of ethical exchange is the concept of "enlightened self-interest" as advanced by Adam Smith.

Murphy et al. (2007) attempt to provide an ethical foundation for relationship marketing. Distinguishing three main phases of relationship marketing (establishing, sustaining, and reinforcing relationships) and positing that each stage is paired with a specific virtue (trust, commitment, and diligence) they explain that relationship marketing is "*inherently an ethical activity, since enduring relationships cannot be built or sustained without a solid moral foundation*" (2007, p.38). This statement is particularly strong. Our case analysis will show whether it can be maintained.

The criteria formulated in these two contributions are summarized in table 1. These sets of criteria for evaluating the ethicality of business exchange between two companies are both grounded in solid philosophical paradigms. They are well formulated and appear to be plausible.

Author(s)	Dimensions
Gundlach and Murphy (1993)	**Trust, equity, responsibility, commitment**
Murphy, Laczniak and Wood (2007)	**Trust, commitment, diligence** (*central virtues*) Integrity, fairness, respect, empathy, transparency (*facilitating/supporting virtues*)

Table 1: Criteria for judging the ethicality of a business relationship as formulated in the marketing literature.

To the best of our knowledge, there is no broad discussion around these sets of criteria. This is astounding for several reasons. First, in both articles the criteria formulated are somewhat eclectic. They come from different paradigms or streams of literature or are located on different conceptual levels. For example, the criteria of trust and commitment have been discussed in the commitment-trust theory (Morgan and Hunt 1994). Equity is a construct that is linked to both discussion of justice or fairness and relational norms (under labels such as reciprocity or mutuality). Responsibility seems to be a more general concept. It can also be argued that causal relationships may exist between the four criteria, for example that trust and commitment are outcomes of perceptions of equity and responsibility. A second reason why the sets of criteria Gundlach and Murphy (1993) and Murphy et al. (2007) formulate may be questioned is that they have not been exposed to empirical testing. The authors have argued for their relevance in practice, yet we do not have empirical evidence speaking in favor or against their validity.

A TEST CASE FOR THE EXTANT PARADIGM

Against this background it is interesting to conduct such a test and see whether the criteria truly allow characterizing a business relationship as being ethical. In order to do so we use an extreme type of business relationship as a test case. This case is drawn from extensive historical research published in a book describing the business relationship between IBM (International Business Machines), the US computer company, and Germany's Nazi government during the period from 1933 to 1945 (Black, 2001). If the criteria summarized in table 1 truly allow identifying ethicality, one should be able to use them to characterize this case.

Key actors in the case are, on the one side, IBM as a US-based corporation with headquarters in New York, its CEO Watson, and its German subsidiary Dehomag based in Munich. On the other side there are the government and several administrations of the German Reich, mainly composed of representatives of the national socialist party, commonly referred to as the Nazi government. It is lead by the Reich Chancellor Adolf Hitler.

Based on an extensive study of documents and testimonies, Black (2001) describes the business relationship IBM and the German government have established and maintained during years. He shows how IBM, as well as its German subsidiary Dehomag, was in direct contact with the Nazi government to provide, install, run and improve business machines helping the German government to organize the holocaust (www.ibmandthe holocaust.com/excerpts.php).

> *"More than 2,000 such multi-machine sets were dispatched throughout Germany, and thousands more throughout German-dominated Europe. Card sorting operations were established in every major concentration camp. People were moved from place to place, systematically worked to death, and their remains cataloged with icy automation. IBM Germany, known in those days as Deutsche Hollerith Maschinen Gesellschaft, or Dehomag, did not simply sell the Reich machines and then walk away. IBM's subsidiary, with the knowledge of its New York headquarters, enthusiastically custom-designed the complex devices and specialized applications as an official corporate undertaking. Dehomag's top management was comprised of openly rabid Nazis who were arrested after the war for their Party affiliation. IBM NY always understood--from the outset in 1933--that it was courting and doing business with the upper echelon of the Nazi Party. The company leveraged its Nazi Party connections to continuously enhance its business relationship with Hitler's Reich, in Germany and throughout Nazi-dominated Europe. Dehomag and other IBM subsidiaries custom-designed the applications. Its technicians sent mock-ups of punch cards back and forth to Reich offices until the data columns were acceptable, much as any software designer would today. Punch cards could only be designed, printed, and purchased from one source: IBM. The machines were not sold, they were leased, and regularly maintained and upgraded by only one source: IBM. IBM subsidiaries trained the Nazi officers and their surrogates throughout Europe, set up branch offices and local dealerships throughout Nazi Europe staffed by a revolving door of IBM employees, and scoured paper mills to produce as many as 1.5 billion punch cards a year in Germany alone. Moreover, the fragile machines were serviced on site about once per month, even when that site was in or near a concentration camp. IBM Germany's headquarters in Berlin maintained duplicates of many code books, much as any IBM service bureau today would maintain data backups for computers.*

These machines allowed the German government to conduct censuses of the German and non-German population and thus identify groups such as Jewish citizens. The machines helped improve imprisonment processes and the logistics of transporting arrested populations to extermination camps. Although IBM and its top management were well aware of the intentions of the German government, they not only did not withdraw from their business relationship, but they even actively extended it. Employees of IBM worked hard to constantly improve the machines IBM could provide and, beyond the machines, provide additional services. Three quotations from Black's study (2001) provide additional information on the case.

> *p.75 "Watson would travel to Germany regularly during the thirties for first-hand information about the situation in the Nazi Reich. These visits would be augmented by his personal New York representatives who would monitor Dehomag on-site for months at a time. Verbatim translations of Dehomag's voluminous memos, correspondence, even routine bureaucratic forms and applications, were continuously transmitted to IBM in New York for review and comment."*
> *p.75 "From the very first moments and continuing throughout the twelve-year existence of the Third Reich, IBM placed its technology at the disposal of Hitler's*

program of Jewish destruction and territorial domination. IBM did not invent Germany's anti-Semitism, but when it volunteered solutions, the company virtually braided with Nazism. Like any technologic evolution, each new solution powered a new level of sinister expectation and cruel capability.
When Germany wanted to identify the Jews by name, IBM showed them how. When Germany wanted to use that information to launch programs of social expulsion and expropriation, IBM provided the technologic wherewithal. When trains needed to run on time, from city to city or between concentration camps, IBM offered that solution as well. Ultimately there was no solution IBM would not devise for a Reich willing to pay for services rendered. One solution led to another. No solution was out of the question."

The criteria for the ethicality of a business relationship formulated by Gundlach and Murphy (1993) can be applied to the case of IBM and Nazi-Germany.

EVALUATING THE ETHICALITY OF THE CASE RELATIONSHIP

THE TRUST DIMENSION OF THE IBM / NAZI GOVERNMENT RELATIONSHIP

The first criterion is trust. Trust is a central concept for understanding human as well as organizational interactions (e.g. Bradach and Eccles, 1989; Dwyer, Shurr and Oh, 1987; Morgan and Hunt, 1994). It has been studied in several disciplines including social psychology (e.g. Deutsch 1960), economics (e.g. Dasgupta 1988), or marketing (e.g. Anderson and Weitz 1989, Moorman, Deshpandé, and Zaltman 1993, Doney and Cannon 1997). Morgan and Hunt (1994) define trust as existing when one party has confidence in an exchange partner's reliability and integrity. It can develop through different processes. Gundlach and Murphy (1993) suggest that exchanges built on trust are ethical exchanges. Based on the research conducted by Black (2001) one can assume that trust was a characteristic of the relationship between IBM and the Nazi government. Although their relationship did rely upon additional governance mechanisms such as contracts or specific investments, there were several decisive moments in the relationship where one party had to trust the other. For example, when the newly elected Nazi government planned to conduct a census of Germany's population in order to prepare the grounds for identifying Jews, they trusted IBM to be able to provide a reliable and valid census in a very short lap of time. Inversely, IBM did trust the Nazi government:

"Nazi Germany offered Watson the opportunity to cater to government control, supervisions, surveillance, and regimentation on a plane never before known in human history. The fact that Hitler planned to extend his Reich to other nations only magnified the prospective profits. In business terms, that was account growth. The technology was almost exclusively IBM's to purvey because the firm controlled about 90 percent of the world market in punch cards and sorters." (p.46)".

THE EQUITY DIMENSION OF THE IBM / NAZI GOVERNMENT RELATIONSHIP

The second criterion is of ethicality we discuss is *equity*. Gundlach and Murphy (1993, p.42) interpret equity as being mainly guaranteed through distributive justice. Hence, as long as the actors in a relationship perceive the distribution of the value created between the actors as fair with respect to certain principles such as the respective inputs this relationship would be ethical. Concerning the IBM / Nazi Germany relationship, equity seems to have been a characteristic of the configuration and perceived on both sides. IBM earned comfortable amounts of money. As

Black (2001) describes the company was even willing to take the risk of suffering economic problems in its home country in order to obtain orders from Germany. In fact, after Hitler's election as Chancellor, US companies collaborating with Germany faced the risk of boycott inside their home market. Yet, the company actively extended its relationship with Germany's government. On the other side, the German government quite clearly appreciated the amount, precision, and speed at which IBM enabled it to collect data but also to plan train schedules and organize other processes in the preparation of the holocaust. Hence, there is evidence that distributive justice was established in this relationship.

THE RESPONSIBILITY DIMENSION OF THE IBM / NAZI GOVERNMENT RELATIONSHIP

The third criterion is responsibility. According to Gundlach and Murphy it "*implies an obligation, which is the manifestation of individual ethical duties*" (1993, p.42). The authors tie responsibilities to behaviors such as showing "*activities and obligations specified by one's formal role*" (1993, p.42). The way it is described by these authors, a manager's and an organization's responsibility appears as very limited. The roles defined by actors in a relationship for each other may be respected, yet they may cause detriment to others. In the IBM/Germany case, both sides showed a sense of responsibility to the extent that they respected the role definitions. IBM delivered the machines enabling the German government to execute its plans to exterminate the Jewish population of Europe. The German government systematically provided new business opportunities to IBM. The problem with this interpretation of responsibility is the complete neglect of the effect each actor's role fulfillment has on stakeholder groups surrounding the exchange.

THE COMMITMENT DIMENSION OF THE IBM / NAZI GOVERNMENT RELATIONSHIP

The fourth criterion is commitment. Gundlach and Murphy (1993) see stability, sacrifice, and loyalty as central characteristics of commitment. Clearly, all three concepts may be used to characterize the relationship that IBM entertained with Nazi Germany. The commitment was particularly strong on the side of IBM which not only respected its contractual obligations but proactively developed techniques for analyzing larger amounts of data, reducing the time necessary for data collection and analysis and making the work with its machines easier for the German government authorities.

THE DILIGENCE DIMENSION OF THE IBM / NAZI GOVERNMENT RELATIONSHIP

Diligence is an additional criterion that Murphy et al (2007) formulate. These authors characterize diligence as the effort or persevering application of an actor to maintain a relationship. And they conclude that:"*companies that exhibit diligence will foster ethical RM*." To justify their opinion they argue that "*if they were unethical, the relationship would likely fall apart*". We would argue that this is not the case. As Black shows in his book on IBM and the Nazi government, IBM showed high levels of diligence. Yet, the relationship business relationship they so perseveringly maintained had tremendously unethical characteristics.

Summarizing, we observe that in a strict interpretation the business relationship between IBM and Germany's Nazi government between 1933 and 1945 fulfills all of the criteria formulated by Gundlach and Murphy (1993) as well as Murphy et al. (2007). Hence, one could conclude that the IBM relationship with the German government was ethical. This result is in blatant opposition with the intuitive evaluation most people would make of the case. It makes it obvious that the current business-to-business marketing literature does not provide us with the means to detect unethical exchange.

The failure of the available criteria to identify the IBM-Nazi business relationship as being unethical stems from the narrow focus of these criteria. In fact, Gundlach and Murphy (1993) concentrate on the dyadic relationship between two actors and the content of this relationship. Their criteria describe both actors in terms of attitudes, motives, and intentions toward the other actor. And their criteria respect the promise principle according to which actors in an exchange relationship *"would be morally obligated to deliver on their promises whether or not they were legally binding*" (Gundlach and Murphy 1993, p.40). They also respect the principle of equality in exchange as well as the morality of aspiration which all can be interpreted as a justification for considering exchange which is conducted on the basis of trust, equality, responsibility, and commitment as highly ethical. But these criteria do not take into consideration or do not allow evaluating the impact that the exchange between two actors may have on other actors, for example in a network of actors, on a market or in a society at large. Also, they do not ask the question whether the exchange that is taking place between two actors has a negative effect on different environments, such as the natural environment, the technological environment and so on. Against this background, Murphy et al.'s (2007) statement that relationship marketing is "*inherently an ethical activity, since enduring relationships cannot be built or sustained without a solid moral foundation*" (2007, p.38) must be strongly questioned. At least, the operationalization of a relationship's "moral foundation" these authors provide is not sufficient to detect unethical exchange.

On the contrary, we suggest that applying the criteria formulated by Gundlach and Murphy (1993) and by Murphy et al. (2007) bears the risk of creating a blind spot in managers' vision of the ethicality of their exchange relationships with others. This blind spot may lead to negative consequences not only for a limited number of actors, but often for a tremendously large number of stakeholders. Hence, the price these stakeholders (or society as a whole) may pay for the consequences is high. Put differently, neither Gundlach and Murphy (1993) nor Murphy et al. (2007) consider possible externalities of the exchange taking place between two actors. Our arguments against the validity of the criteria currently advanced on the basis of virtue ethics adds to prior criticism. Other scholars have suggested that it remains rather "*far from the reality of encountered situations and thus improper to provide any guidance to understand that kind of ethical issues*" (Whysall, 2000, p. 176). As a consequence, new research is needed, conceptual and empirical, in order to develop an adjusted perspective on business-to-business exchange and interactions. In the remainder of this article, we make propositions for a more comprehensive view.

A REVISED PERSPECTIVE ON BUSINESS-TO-BUSINESS EXCHANGE

We believe that several avenues for the development of a more comprehensive and appropriate view of the ethicality of business-to-business exchange exist. Although they started to become apparent during the presentation of the IBM case, we develop each avenue more systematically. We address three conceptual areas: exchange externalities, the relational norm of harmonization with the social matrix, and stakeholder as well as network theories. All three concepts are interrelated.

EXCHANGE EXTERNALITIES

In order to develop our point, we compare two models of exchange. In model 1 we present the view of ethical questions reflected in the current contributions on ethics in business relationships

(Gundlach and Murphy 1993, Murphy et al. 2007). Criteria for evaluating the ethicality of a relationship, such as trust, equity, responsibility, and commitment, refer to the behaviors of the actors involved in a dyadic relationship and how these behaviors affect the outcomes for each of them. Put differently, this view holds that the behaviors of A (B) are ethical if they foster positive outcomes for B (A) and if the interests of B (A) are respected. While a motivation for individuals or organizations to become involved in exchange is to improve their current situation, clearly such a view as described in model 1 is very focused on the dyad and, thus, narrow. It hardly considers the effects the exchange between A and B may have on other actors in a network of actors or on society as a whole.

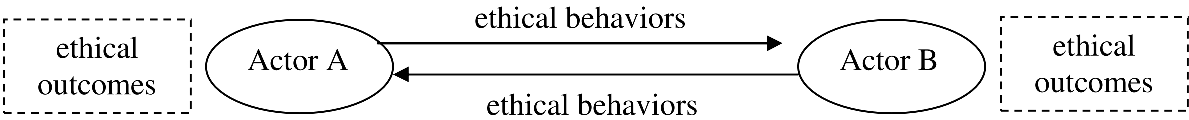

Figure 1: The perspective *on ethical exchange in the extant literature*

As a consequence, we propose an enlarged model of ethical relationships (model 2). Because exchange does not take place in a vacuum and will often have considerable external effects on other actors in a network or / and society, we posit that a business relationship can only be referred to as ethical if it fulfills two additional criteria: First, while leading to positive outcomes for the actors directly involved in exchange it should not produce negative effects on outcomes of other actors; and second it should not only respect the outcomes of all actors but the exchange process should also be acceptable for all actors, i.e. it should not be disrespectful of other actors such as members of society in general. In model 2 we represent this idea graphically.

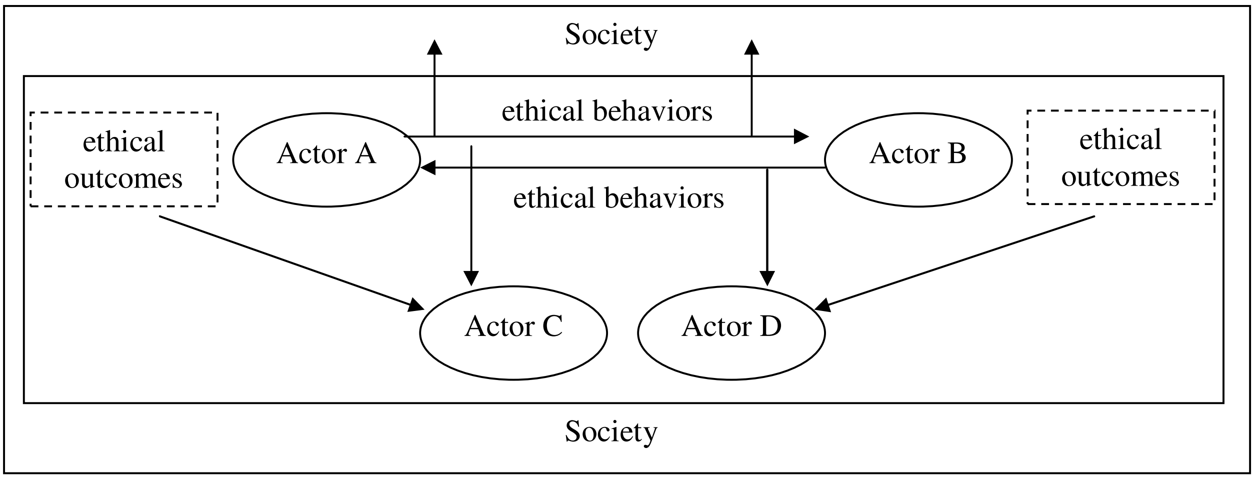

Figure 2: A revised model of ethical exchange

To summarize, in the view expressed in model 2, a business relationship is ethical if it produces positive outcomes for all parties directly and indirectly involved in or concerned by exchange and if it does not interfere with the interests of individual actors or society in general beyond moral standards one society or several societies have developed.

Model 2 represents a change in perspective from the dyadic view that has long prevailed in business marketing. In fact, the economic literature holds that exchange can have positive and negative effects for third parties not involved in a transaction. These effects are referred to as externalities (e.g. Baumol 1972). Negative effects are also represented as external cost. The term external cost is interpreted in a broad sense and includes not only monetary expenses but also all kinds of other reductions in wealth or quality of life. There are, for example, external costs (or externalities) in the form of lost time, noise, health issues, and so forth. Such external costs can be considered unethical as they are traditionally not included in cost calculations or prices used in dyadic exchange. Hence, other actors will need to support these costs, likely without enjoying benefits from the exchange. From the vantage point of economics, business relationships respecting the principles of trust, equity, responsibility, and commitment may still produce external costs for actors other than the parties involved in exchange. As a consequence, there is a high risk that they are not ethical. In the case study briefly presented above (Black, 2001), it becomes clear what external costs members of the German society such as Jewish citizens had to support because IBM and the German government involved in mutually profitable exchange.

We acknowledge that in our enlarged model it becomes much more complex to establish the ethicality of a business relationship as compared to model 1. Already in a dyadic business relationship the interests of each party can be multi-dimensional and, hence, establishing whether these interests are preserved may be difficult. Given that society is composed of a wide range of actors, the interests to be considered are manifold. In addition, the numerous types of externalities economic exchange may produce also make it difficult to evaluate whether a specific exchange situation is ethical or not. However, this perspective is closer to managerial reality than the current literature. An oversimplification of a model reduces its validity when important aspects of reality are not included. Hence, our model allows a better definition of what an ethical relationship is than the view so far developed in the literature. In order to contribute nevertheless to a transparent description of ethical business-to-business exchange, we continue by introducing two more concepts, the relational norm of harmonization with the social matrix and stakeholder as well as network theories.

HARMONIZATION WITH THE SOCIAL MATRIX

Externalities are a concept describing effects of exchange on actors other than those directly involved in exchange. Stemming from the field of economics it discusses external costs but provides no link with frameworks commonly used to analyze business-to-business exchange. To link externalities with the literature on business-to-business exchange we draw upon Macneil's relational exchange theory (1974, 1978, 1980).

Macneil (1980) is concerned with the governance of exchange and has focused much of his work on "soft" governance mechanisms he refers to as norms. Norms are expectations an actor involved in exchange develops with respect to the appropriate behaviors and principles of the other actor(s) involved. He develops a list of common norms, such as role integrity, mutuality, contractual solidarity, or flexibility. These norms show certain similarities with ethical principles such as equity or responsibility discussed by Gundlach and Murphy (1993). They refer to activities inside a dyad. However, Macneil argues that any human activity is embedded "*in the context of the social matrix in which it occurs*" (1974, p.711). He defines one common norm that establishes a link between, on the one hand, the norms governing dyadic relationships internally and, on the other, the broader societal environment. He labels this norm "*harmonization with the social matrix*" (1980, p.57).

Macneil (1980) states that this norm requires exchange partners to comply with social values such as privacy and liberty. He argues (1983, p.344) that the social matrix stipulates the minimum necessary for exchange to occur. When exchange partners exchange within one society, then the norms regulating their exchange must comply with the specific social matrix of their country. When exchange partners, as is the case in the IBM example, come from two different cultural backgrounds, then the situation may appear more difficult. Macneil, however, posits that different backgrounds do not render the norm of harmonization with the social matrix invalid: *"whatever are the norms of [a] society must become at least partially the norms of the contracts occurring within it. These norms are particularistic to the extent that societies differ. They are of general applicability to the extent that all human societies share common norms" (1980, p.58).* Hence, there is a universal set of societal norms which, irrespective of the existence of additional culture-specific norms, apply to all exchange. By introducing this norm, Macneil lays the foundation for a more comprehensive ethical perspective on business exchange, even on international exchange. Cultural differences or other national specificities, such as undemocratic political systems, do not excuse externalities (or even render exchange ethical). Actors involved in exchange must always comply with general societal laws, such as human rights.

Extending the perspective on ethical business to business exchange by including the norm of "harmonization with the social matrix" is a consequent step in that it adds a moral dimension to the externality concept. Exchange externalities have been shown to imply costs for actors not directly involved in an exchange. Costs are an economic concept. In order to underline the fact that in business, beyond cost considerations, ethical considerations are important we believe that it is helpful to draw upon the norm concept. Norms are mutual expectations the actors involved in exchange develop over time (Macneil 1980). They become effective if they include an important amount of shared expectations. These shared expectations develop through interaction and over time. An actor believes a certain behavior to be appropriate based upon which norms have been developed in the dyad. Actors respect norms because they feel a moral obligation to do so. In the literature, the norms described in Macneil's relational exchange theory have received a considerable amount of attention. But the overwhelming majority of authors in marketing using these norms only draw upon a subset of norms (Ivens and Blois 2004). These norms are the ones which serve to govern aspects of exchange that are internal to a dyad such as solidarity; reciprocity, or flexibility. On the contrary, the one norm defined by Macneil that serves to anchor the internal norms in a social context, i.e. harmonization with the social matrix, has systematically been ignored by marketing scholars. As long as we only study internal characteristics of, for example, business relationships, the harmonization norm appears to be quite useless. But as we turn to the question of whether business exchange between two actors is ethical or not, the norm's importance is augmented. The particular usefulness of the harmonization norm in particular (and Macneil's norm concept in general) is that they allow describing the link between the internal processes taking place inside a dyad and the effect these processes have on a society. Hence, they provide a unifying framework of analysis.

STAKEHOLDER AND NETWORK THEORIES

Finally, we suggest leaving the dyadic perspective on exchange in order to move towards a stakeholder perspective that allows linking ethical considerations and the IMP perspective on markets as networks (Freeman 1984).

Stakeholder theory places the individual company within a "*constellation of interests which may lie inside or outside the company and have conflicting or competing demands*" (Millington, 2008, p.366). In a narrow perspective, a stakeholder has some legitimate claim toward a company because its decisions and activities can have an effect, positive or negative, on the putative stakeholder. Broad definitions also include the aspect that stakeholders may have the power to influence the company's ability to reach its objectives in a positive or negative manner (Mitchell et al. 1997). Ferrell and Ferrell (2008, p.28) argue that *"the stakeholder framework recognizes* *the intrinsic value of all stakeholders from an ethical perspective and acknowledges the utilitarian need for firms to serve interests of different stakeholders to secure their support*". As Higgins and Ellis (2009) indicate, the stakeholder perspective is likely to provide a good avenue for broadening our view of ethical business-to-business issues.

There is a conceptual proximity between, on the one hand, stakeholder theory as developed in the more general literature on ethics and corporate social responsibility, and, on the other, the network concept discussed in economics, management and, in particular, the IMP literature. The concepts are not identical though. The general literature on networks (Bradach and Eccles, 1989; Miles and Snow, 1992; Powell, 1990) as well as the network pictures stream of research (e.g. Henneberg, Mouzas and Naudé, 2006) show that academics and practitioners alike typically interpret a network as a subsample of stakeholder groups. For example, markets are seen as networks (Anderson, Hakansson and Johanson, 1994; Hakansson and Snehota, 1989; Hakansson and Snehota, 1995; Hakansson et al., 2009) and this perspective will comprise supplier and customer firms or members of cooperative arrangements. But stakeholders such as NGOs, the general public, employees and others are mostly not included in this perspective. A network as analyzed in the IMP perspective is composed of firms and actors; it is characterized by activities and resources. It is primarily an economic group of individuals and organizations involved in business interactions. Economic exchange is at the heart of a network. A firm's stakeholders, on the contrary, comprise several types of actors, economic, political, social, religious, cultural and the like. The stakeholder network is, hence, broader than the classical network. We speculate that this difference in perspective is the reason why ethical questions, so far, have not played a major role in the networks literature. Vaaland, Heide and Gronhaug (2008, p.943) comment: "*The studies of ethics in a network context include only one article, which discusses the challenge of new collaborative relationships in relation to society and regulating agencies*".

We argue that research on networks can profit from an integration of the stakeholder perspective. By adding other actors than firms, their supplier, their customers, and their alliance partners to the network concept one would obtain a more realistic perspective in which the ethical, ecological, and increasingly political issues economic exchange implies receive the attention required in the future. Against the background of the recent financial and economic crisis, exchange and interaction on business markets will only be understood correctly if we direct our attention to important network members and stakeholders such as, inside a company, its employees and their related social groups and, outside the firm, local communities, governments, non-governmental organizations, journalists and comparable interest groups. We suggest referring to this enlarged network perspective as the stakeholder network as opposed to the more classical and narrow market network.

LINKING EXTERNALITIES, THE NORM OF HARMONIZATION, AND THE STAKEHOLDER NETWORK.

The three concepts reviewed, i.e. externalities, the norm of harmonization with the social matrix, and the stakeholder network, have strong conceptual links. Taken together, they allow providing a solid basis for studies of the ethicality of business relationships and, more generally, business-to-business exchange. The stakeholder network constitutes the relevant playground we need to consider when discussing ethical issues in business-to-business exchange. Any interaction between the actors involved has the potential to affect a large number of economic and non-economic actors who are not part of the classical market network. And, adversely, those actors oftentimes have the potential to influence the dimensions and outcomes of exchange. As a consequence, companies need to consider the complete relevant playground when analyzing the environment of exchange and making strategic decisions.

The concept central to any analysis of ethical questions in business-to-business exchange conducted in stakeholder networks is constituted by externalities. Ethical issues arise when exchange in a market network has a negative impact on some stakeholder because he, she or they suffer external costs. The governance norm of harmonization with the social matrix provides the linking concept between the externalities of a relationship and the core exchange activities conducted by the actors involved. When entering into exchange, the actors start developing a governance structure for their mutual activities. According to relational exchange theory, norms play a key role in such exchange. The complete norm-based governance structure actors put in place will be comprised of both, norms governing the internal exchange of goods, information, money and social value inside a dyad or network and the way how the actors believe their exchange activities should fit into the society surrounding them. This society can be considered to be composed of the different stakeholders who are part of the stakeholder network, yet are not directly involved in exchange. Thus, where relational norms such as flexibility, reciprocity or solidarity may constitute central criteria for judging the ethicality of exchange inside a dyad or network, the specific norm of harmonization with the social matrix embeds the exchange activities in the stakeholder network and requires that the actors respect the stakeholders' interests as well as their own.

A RE-EVALUATION OF THE IBM CASE

A brief look back at the IBM case shows that our integrated perspective on the ethicality of exchange allows identifying the business relationship between IBM and the Nazi government as being unethical. It permits defining the relevant stakeholder network. In this case it is composed not only of actors such as IBM as mother company, Dehomag as subsidiary, the German government and their various ministries, departments and other organizations. It also comprises various stakeholder groups such as Jewish citizens of several European countries and other members of minorities deported by the Nazis, but also the members of armed forces in several countries, these countries populations and many more.

Our perspective also identifies the horrible effects of IBM's business relationship with Germany as exchange externalities. Although we are aware that the term in its technicality may be shocking in the context of the holocaust, we believe that in order to build a theoretical framework aimed at understanding ethics and business exchange it is helpful in that it obliges economic actors to not only consider their own interests in exchange but also pay attention to the impact they have on various stakeholders. For business men it may be helpful to understand the external costs of their activities.

The norm concept in general and the norm of harmonization with the social matrix in particular are useful because they provide more specific criteria for evaluating the behaviors of actors. These criteria allow drawing a broader picture of behaviors than the ones formulated in the literature so far. In the specific case of IBM, they allow show that although strong norms of flexibility, solidarity, role integrity and the like obviously have existed for a long moment in the relationship with German governmental institutions, the norm of harmonization with the social matrix was inexistent. However, where such a norm is not present – or not respected by the actors – exchange cannot be ethical because the actors take into account that by creating value with and for each other, they do harm to stakeholders.

Against this background, there can be no doubt about the true character of IBM's business relationship with the Nazi government.

THEORETICAL AND MANAGERIAL IMPLICATIONS

The purpose of this paper was to provide an overview of criteria currently available in the marketing literature to analyze the ethicality of business-to-business exchanges. We observe that extant sets of criteria are insufficient, at least in their current version, to draw a clear line between ethical and unethical relationships. More precisely, their respect may allow ensuring a certain level of dyadic ethicality. However, they do not enable us to guarantee that a business relationship is ethical in all senses.

The explanation for this result lies in the fact that Gundlach and Murphy (1993) rely on an actor based perspective of ethicality. When formulating their ethical criteria they do not consider the fact that exchange may be embedded in network structures and that it is always embedded in a societal environment of stakeholders. Hence, they only discuss the direct effect of one actor's activities on the other actor. But they do not consider whether these activities may be considered unethical with respect to other actors such as business partners in the network who suffer or society in general.

Their framework clearly calls for an amendment. We need to move from a dyadic notion of ethicality to a holistic notion of ethicality. While the blind spot in Gundlach and Murphy's concept of ethicality may be surprising at first sight, it does reflect managerial practice and perceptions to a certain extent. For example, in their survey of 462 marketing managers in the US, Chonko and Hunt (1985) identified the ten most important ethical issues for marketing managers. Among these ten issues, several are relevant in the context of business relationships. For example the three most often cited problems were bribery, fairness and honesty. However, nor these three issues – in the interpretation made by respondents – nor any of the other seven most important ethical issues focus on questions outside of the close work context or relationship context of managers.

No allusions to political questions, to questions of environmental friendliness or corporate social responsibility appeared; only one citation relates the doubts of a district marketing manager because he is selling sweet baked goods which are not good for final customers' health. These empirical results show that it may be difficult to realize that there are not only direct ethical questions in one's work environment or in a dyadic business relationship but that effects on the broader environment need to be taken into account as well.

Another explanation may be that specific theories about corporate social responsibility have had a strong impact on certain authors as well as on managers when defining their ethical guidelines for business relationships. For example, Wood, Chonko, and Hunt (1986) distinguish between three philosophies on corporate social responsibility, i.e. a classical view, an activist-constrainer view, and a managerial view. According to them, the classical view maintains that managers are primarily responsible for ensuring the efficiency of their firm. Social responsibility activities bear the risk of making a company inefficient, extravagant, and sluggish (Levitt, 1958). Burck (1973) argues that managers are only responsible for respecting the laws of the land while Friedman (1962) sees the main responsibility of a manager in serving his shareholders. On the contrary, both proponents of the activist or constrainer view and of the managerial view recognize the fact that firms are responsible for externalities (e.g. Aldag and Jackson, 1975) or that at least firms have a "moral minimum" to fulfill and an "affirmative duty" to attack problems in society (e.g. Simon, Powers, and Gunneman 1972, Konrad 1982). The activists identify reward structures inside companies as sources of a lack of ethical responsibility among managers. For example, Johnson (1981) argues that managers will keep their eyes shut to illegal or unethical practices in order not to put their career at risk. They will engage in unethical behaviors in order to ensure salary increases or receive other personal benefits.

This perspective may also allow understanding why authors such as Gundlach and Murphy (1993) focus on dyadic ethical values rather than holistic ethical values when discussing business relationships. For a manager, respecting ethical standards inside a relationship may be directly beneficial because this may ensure the growth and profitability of the relationship and, hence, his own development in terms of salary increases or promotions to higher hierarchical levels inside the company. Respecting other ethical standards than the dyadic ones, on the other hand, may reduce the profitability of a business relationship or even lead to relationship termination in which case the manager will suffer a personal disadvantage. Against this background, maintaining a limited perspective on ethical values is in his best interest. One might suspect that authors such as Gundlach and Murphy (1993) had the classical view of corporate social responsibility and managerial explanations for behavior in mind when developing their set of ethical principles to apply in relationships.

AVENUES FOR FUTURE RESEARCH

Against the background of our observations, several avenues for future research can be formulated.

One problem we have identified is the strong focus in extant paradigms on the dyad in the narrowest sense. This perspective needs to be broadened. As our case study of IBM and the Nazi government clearly indicates, business exchange can have tremendous external effects. These effects do not have to be as dramatic as in the Holocaust. Every negative effect of an exchange on other actors merits consideration. In this context, it is not sufficient to broaden the perspective from the dyad to a supply chain or a demand chain. In order to fully evaluate the ethicality of business exchange we need to move from the dyad to a network perspective as it has been developed in the IMP literature. The network perspective is close to the propositions made in stakeholder theory that businesses (and the individuals working in them) should be responsible for the effects of their activities on other stakeholders. It views business exchange as taking place in a context of actor bonds, activity links, and resource ties (Hakansson and Snehota, 1995). However, it still has its main focus on achieving "*the goal dimensions of business enterprise such as efficiency, effectiveness, profits, development potential and innovativeness*" (Hakansson and Snehota 1995, p.5). Social and ecological goal dimensions as comprised in the triple bottom line perspective (Elkington, 1997) or in the corporate accountability literature (Crane and Matten 2005) are not yet at the center of the network approach. In order to make valid judgments about the ethicality of exchange we thus need two developments: First, we need to extend the perspective from the dyad to the network; and second, we need to enlarge the network approach and broaden its focus from a predominantly economic perspective to a perspective that is in line with the fundamental objectives formulated in corporate social responsibility thinking. Future research could attempt to provide insights into the structure of marketing goals inside companies and the relative importance of ecological and social goals. It could also attempt to identify possible links between firm characteristics and the attention paid to ecological and social objectives in a firm. Future research could also include NGOs - and other non-business actors in the network perspective – so as to understand their role, for instance, in helping businesses develop an understanding for ethical challenges or formulate ethical answers in exchange. NGOs - and other non-business actors could also be analyzed in their possible role in monitoring the ethicality of businesses in exchange or in serving as custodians of the ethicality of business exchange.

Second, we know little about the types of exchange externalities business to business transactions can produce. It would be important to classify these externalities and to see of some externalities

are systematically produced, for example by specific types of actors or in specific cultural contexts. Obviously, various types of externalities exist: economic, social, political, ecological, physical, health, cultural etc. But a solid categorization could serve as a basis for marketing research in this area.
Third, we suggested the norm of harmonization with the social matrix become a core concept when discussing the ethicality of business exchange. However, a current review of the relational contracting literature (Ivens and Blois, 2004) comes to the conclusion that there is a bias in the attention scholars have paid to the different norms developed by Macneil. Whereas norms such as flexibility or solidarity have been included in several empirical studies, little is known about the empirical importance of the harmonization norm. How do actors in a dyad or in a network precisely adjust their roles and behaviors with the social matrix? What standards do they refer to? And what happens in case of international business exchange where the social matrix is quite disparate? These questions call for a deeper analysis.
Our study has shown that the current literature on the ethicality of business relationships needed a revision. In this paper, we suggest a revision in the form of an amendment. We have formulated three concepts which allow capturing effects of business exchange that concern stakeholders surrounding the exchanging parties because our analysis came to the conclusion that the focus of the criteria defined so far is too narrow. However, we did not discuss whether the sets of criteria developed by Gundlach and Murphy (1993) as well as Murphy et al. (2007) allow judging the ethicality of business exchange for the actors involved in a relationship. It is not certain that criteria such as commitment or responsibility are sufficient (complete, free of overlap, unequivocal) to evaluate this. We believe that these criteria are somewhat eclectic and that a deeper discussion is required. Future research could attempt to fill this gap in the business exchange literature.
Finally, so far we do not define precisely when a business relationship has negative impact on other actors and on society. Establishing this precisely is a complex task. It involves a discussion of what effect would be interpreted being negative or positive. Depending upon the economic theory one grounds one's reflections on, the conclusions will differ. For example, in a liberal perspective the fact that employee of one company loses his job because another company obtained an order from a customer and his own company now is threatened by bankruptcy is not a negative outcome because it is part of normal market processes. On the contrary, it would be argued that the elimination of an uncompetitive company is beneficial for society at large because it increases the efficiency of economic processes. Other paradigms would lead to other conclusions. But before we can even start applying these sets of criteria (or ethical theories, see Crane and Matten, 2004) we need to define the unit of analysis. And here, networks of actors become increasingly relevant.

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