

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

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Abstract

In this study we put ethics into the spotlight and describe what existing research reveals about the ethics and its importance for business networks. Our aim is to draw researchers' attention to ethics as a timely extension of business network approach and to propose avenues for its future study. Business networks form a specific context for the study of ethics, yet only very little research has been conducted on the topic. Based on existing literature on ethics in business networks and in other business-related networks (e.g. network organizations, social networks), we will first analyze the stands taken on defining ethics in such relational contexts. Secondly, we will address the significance of ethical behavior for business relationships and networks. To conclude, we derive four themes and a number of potential questions to be posed in future research on business network ethics. The study creates a contribution to the field of business networks by providing a state-of-the-art examination of the research topic and by laying a basis for its future study.

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

INTRODUCTION

In today's business environment, ethics and responsibility are emphasized as necessary values for business success. Companies enforce ethical codes of conduct and stress non-harmful actions, expecting that commonly agreed principles would translate into actual business behavior. Cases like Enron (Sims & Brinkman 2003) and supreme mortgage crisis in US (Jennings 2008), Bangladesh garment industry tragedy (Peck 2013) and unethical supply chain practices in the smart phone industry (Garside 2013) have increased awareness about ethical issues and shown that companies as well as whole industries can suffer severe reputational and financial damage when their unethical dealings are revealed. When such cases are reported, they often involve a major scandal with serious impact on company reputation or even to the international economy (Benady 2009; Marriage 2013; Taticchi, Tonelli & Pasqualino 2013).

Ethical behavior in every-day b-to-b interaction is less seldom in the news. Smaller scale unethical behavior will never make it to the newspapers as there is not necessarily anything scandalous about it; the behavior has become a norm and generally accepted in the network; or the most powerful actors simply suppress the views of those who are not willing to play with questionable rules. Furthermore, for those who suffer from the consequences of unethical behavior it may be difficult to prove the harm done, and those accused of unethical behavior may easily denounce their responsibility on the matter.

Yet, ethics is an important element in all business exchange. In business networks companies become connected to each other through activity links, resource ties and actor bonds that create interdependencies (Håkansson & Snehota 1995) and conditions conducive to ethical concerns. Continuity of the relationships is stressed: investments and adaptations made in interaction create expectations of future returns. Relationships are typically governed by informal bonding, i.e. close social interaction, trust and commitment, in contrast to formal contracts (Håkansson & Snehota 1995; Rousseau 1995). In such conditions ethical norms of behavior function as an important governance mechanism (Gundlach & Murphy 1993), which in the long run may manifest as healthy and sustainable business conduct, that benefits relationships and networks and ultimately affects companies' competitiveness and performance.

Business exchange also occurs embedded in various temporal and social layers of the society (Halinen & Törnroos 1998) making it dependent on ethical considerations. Cultural values and industry-level practices that have become established over time, or social norms like fairness, trust and reciprocity that evolve among interacting individuals both importantly influence exchange. Through the globalization of markets, free availability of information and the pressing social and environmental problems affecting the globe ethical issues have increasingly become part of everyday business (Törnroos & Lindfelt 2006). Törnroos and Lindfelt (2006) suggest that companies and networks are ethically embedded and call for further research on their ethical identity, role, position and atmosphere (Törnroos & Lindfelt 2006).

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

Moral philosophy offers a range of principles and theories of ethics (Hosmer 1995; Hunt & Vitell 2006). Whatever the theory adopted, ethics essentially deal with the varying interests of actors. The principles presented give guidelines for determining how conflicts in human interests are to be settled and for optimizing mutual benefits of individuals interacting in groups (cf. White & Lam 2000). Because the interests of the actors do vary and are sometimes also hidden, ethical problems and conflicts easily arise (Boyd & Webb 2009). This is also the case for business networks where the actors' interests typically vary and different viewpoints to business interaction are always present.

To discuss ethics in business networks as an extension to current research and a potential new research area, we pose five key questions to be answered:

1. What do we already know about ethics in networks? In other words, to what extent this is a new area of research within the business network research domain?
2. How the moral philosophical theories have been used to instruct business network researchers in their efforts to study network ethics?
3. Given that ethics essentially deal with human behavior – as right or wrong, ethical or unethical – we should also ask how ethical behavior has been defined and conceptualized in business relationships and networks?
4. For ethics to be a promising area of research, we need to ask why is it important for business networks, to their functioning and performance? And finally,
5. Assuming that ethics is a relevant although neglected area within business network research, how should this area be developed further? What kind of research questions should be posed in future research?

In sum, the purpose of this study is to describe what existing research reveals about ethics and its importance for business networks, and based on existing literature, to propose paths for future study on network ethics. The study is conceptual and draws primarily on existing research on ethics within the IMP Network Approach but also other business-related network traditions, e.g. network organization and social networks. Our aim is to engender discussion and further research on ethics in business networks rather than to provide empirical evidence or to arrive in any confirming conclusions on the issue.

The paper will proceed in the following way. Firstly, we review the literature shortly and provide a theoretical and conceptual understanding of ethics and ethical behavior in business networks, using moral philosophies as a starting point. Secondly, we describe the characteristics of business interaction that make ethics an especially relevant topic to study in business networks. We also provide some case examples to show how ethics become manifest in business interaction. Thirdly, on the basis of existing literature we will suggest four themes on network ethics to be scrutinized further in future research. We hope that our study paves the way for new research efforts in this so far neglected research area and that it offers a solid foundation for future research.

A LITERATURE REVIEW AND THEORETICAL GROUNDING OF ETHICS IN BUSINESS NETWORKS

Literature on network ethics

Ethical issues have long been on the research agenda of business and marketing scholars (Hunt & Vitell 1986, 2006; Gundlach & Murphy 1993; Treviño & Nelson 2004). Yet, only few studies have focused on ethics in business networks. Within the IMP business network tradition, Törnroos and Lindfelt (2006) have been the pioneers of the theme and studied ethics as part of the economic value co-creation. They conceive ethicalness as a character of companies and networks in which value is created and put forward the notion of ethical embeddedness of a firm. Other scholars have recently opened interesting discussions (so far only in form of conference papers), for instance, on the notion of justice in supply chains (Higgins & Ellis 2009), on the limitations of ethical codes and legal directives in fostering ethical practices in project networks (Crespin-Mazet & Flipo 2009), and on the importance of networks and the broader social context for creating a proper understanding of ethics in b-to-b exchange (Ivens & Pardo 2010). Also some specific unethical behaviors have been raised into discussion, such as corruption (Salmi 2000).

Looking beyond the IMP tradition, contributions to network ethics are equally scarce. Drawing on the social network approach Brass, Butterfield and Skaggs (1998) focus on the social network structure as an explaining factor for unethical behavior of individuals, while Melé (2009) examines ethics in individuals' interaction practices defining in more detail both ethical and unethical behavior. Within the organizational research stream Daboub (2002) stresses the importance of ethically behaving business partners for company reputation and Daboub and Calton (2002) the climate of trust created through ethical conduct for efficient contracting. Santana, Vaccaro and Wood (2009) study the means by which managers attempt to control ethical issues in a network organization.

Based on this limited review we may conclude that ethics has been approached from three different perspectives: 1) ethics as a characteristic of firms and networks, 2) ethical behavior within the networks in terms of interaction, processes and sharing the outcome, and 3) ethics of business exchange and its impact and interaction with the wider array of stakeholders and the society at large. Overall, very little is, however, known about ethics, its importance or its manifestations in interorganizational or business networks.

Use of ethical theories to study exchange relationships

Moral philosophy offers various theoretical approaches to ethics that provide ideal moral principles to guide individuals in business interactions (Ferrell, Fraedrich & Ferrell 2012; Hosmer 1995). Perspectives widely used in business context include deontological, teleological or utilitarian, and virtue ethics (Ferrell et al. 2012; Hunt & Vitell 1986, 2006; Nantel & Weeks 1996). Deontologists believe that the action is justified when there is conformity to ethical rules or norms (Ferrell et al. 2012; Hunt & Vitell 1986, 2006). Teleologists and utilitarians emphasize the ethical consequences of the action to the related stakeholders; action is considered ethical if considering all its costs and benefits, it creates the greatest potential utility as an outcome (i.e. the desired consequence) (Ferrell et al. 2012; Nantel & Weeks 1996; Hunt & Vitell 1986, 2006). Utilitarian ethics presumes that acting morally can also be rooted in egoistic motivations (Hosmer 1995) and as Ferrell et al. (2012)

put it, organizations may end up with following the so called ‘enlightened egoism’ simply driven by an attempt to maximize their own benefits.

Virtue ethics, on the contrary, sets ideals for individuals that require moral character, and leads to seeking good for others and having a respecting and benevolent attitude (Melé 2009). Higgins and Ellis (2009) take this view to the extreme in the context of the supplier relationships: based on Levinas (1974/2004) justice is demanded equally for every party no matter what is the distance between the parties and without expectation of reciprocity when adjustments to others are made.

The model of Murphy, Laczniak, and Wood (2007) on ethical relationship marketing takes a virtue perspective. Also Melé (2009) draws on virtue ethics when defining not only ethical, but also unethical behavior in individual level networking. Ivens and Pardo (2009), however, point out the insufficiency of the virtue ethics approach to business relationships. They argue that when assessing the ethicalness of b-to-b exchange the focus on relational virtues is too limited; assessment should also include the utilitarian aspect of non-harming consequences to possible stakeholders and the society at large.

Gundlach and Murphy (1993) emphasize the importance of ethics in long-term relational exchange and even if they do not commit themselves to any theory of ethics, their suggestion clearly relates to virtue ethics and deontological approach as well as to the equity theory. Equity theory originates from social psychology and explains the motivation of parties to commit to a relationship by their belief to be fairly rewarded for their contribution (Adams 1965; Cook & Messick 1983). Also the studies of Luo (2006, 2009) that assess the impact of fairness are based on equity theory.

Thus, all three theories of ethics have been applied in business exchange studies in some form. Virtue ethics and deontological approaches have a social emphasis, whereas the teleological/utilitarian approach adopts the economic (cost/benefit) perspective and is therefore particularly fitted to the assessment of business outcomes and their sharing among business actors. Besides the theories of ethics, the equity theory has been used to evaluate both the processes of exchange and their social and the economic consequences.

Ethical behavior in exchange relationships

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

In Gundlach and Murphy’s (1993) treatment of relational exchange trust, equity, responsibility and commitment are required for fair exchanges to occur. The model of Murphy, Laczniak, and Wood (2007) takes a process perspective, and explain how ethical behavior emerges. Adopting a virtue perspective they suggest that trust, commitment and diligence, defined as persevering effort to maintain the relationship, develop sequentially. In addition, these fundamental virtues should be paired with supportive virtues of integrity, fairness, respect, empathy and transparency, in order to achieve an ethical relationship. While

the mentioned scholars consider trust and commitment as essential dimensions of ethical exchange and ethical relationship marketing, many other authors regard such relational bonds as outcomes of ethical behavior (Daboub & Calton 2002; Luo 2009; Melé 2009). What constitutes ethical behavior in business interaction has ultimately not been addressed. Research has emphasized the foundations or principles on which ethical relationship marketing is built on (see e.g. Perret & Holmlund 2013), not the ethical behavior per se.

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

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

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

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

To conclude, literature has provided two major approaches to ethical behavior in exchange relationships: the relational exchange view and the distributive justice perspective. We could not find any comprehensive framework of the concepts that could be used in defining ethical behavior in b-to-b exchange relationships, not to mention business networks. Varying views exist on what is considered as ethical behavior and what are its outcomes. Furthermore, research has typically examined ethical behavior in dyadic relationships, focusing on strategic alliances, joint ventures or channel relationships. It remains so far unsolved, how the

conceptions of different network actors on ethical behavior differ or how ethical behavior in single relationships is related to ethical behavior in other connected relationships in the context of networks.

SIGNIFICANCE OF ETHICAL BEHAVIOR FOR BUSINESS NETWORKS

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

Networks as an arena for ethical concerns

When ethics is discussed in general or in the context of marketing the issue of how (or why) to find a balance between the interests of others and one's own are always present. This also concerns exchange relationships, but even more so the networks, where the number of actors and potentially diverse interests are multiplied.

A further examination of the relationship features and the way the industrial networks have been depicted reveals that with the emphasis on cooperation they almost inherently include an expectation on ethical behavior. In networks the ethical behavior is embedded in the mutual orientation, required from the actors when establishing and developing relationships and networks, with the purpose of well-functioning cooperation and value creation (Ford, Håkansson & Johanson 1986). This mutuality, which is a measure of how much a company is prepared to refrain from its own individual goals or intentions in order to increase the positive outcomes of others, and through this, to ultimately increase its own well-being, rests on a belief in the importance of collective goals or common interests of more than one company (Ford, Håkansson, & Johanson 1986). Thus, the companies are expected to move from the hardest bargains – market-based transactions – to the exchange that stresses relational aspects and focus on network interdependence and coevolution instead of the competitive aspects (Gadde, Huemer & Håkansson 2003).

Nature of exchange forming a rationale for ethical behavior

Ethical behavior in networks is importantly influenced and shaped by the characteristics of exchange relationships, both structural and process-related features, such as continuity, adaptation, informality, and (a)symmetries (Håkansson & Snehota 1995, 7).

Business relationships are often established with an *expectation of continuity* (Håkansson & Snehota 1995). Repeated transactions and fairness experienced in them create trust and commitment in the relationship, enabling the relationship to develop and generate expectations on positive future outcomes and relationship continuation (Halinen 1997; Gadde et al. 2003; Hosmer 1995). In the course of time the increasing commitment and the trust between the actors is expected to turn into stability while keeping the networks dynamic and

open to change (Håkansson & Ford 2002). In long-term relationships ethical behavior becomes nearly an indispensable precondition for positive outcomes to emerge and the network to sustain. The mechanisms for this lie in the interdependencies that tie the firms together on several levels, for example technological and social, but also economical.

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

Informalities like interpersonal closeness and trust, emerge to complement the formal contracts and have an important role in adjusting the relationship and network activities (Håkansson & Snehota 1995). In their exchange relationships the network actors will start following the informal “normative contracts” (Rousseau 1995), comprised of implicit understandings that embody common values, beliefs, norms, and expectations among business partners (Brown, Cobb & Lusch 2006; Luo 2009). The purpose of contracts in general is to clarify roles and expectations, to reduce ambiguity, uncertainty, and disagreements. The social elements of informal contracts have an important role in creating flexibility, in solving conflicts and even in preventing them (Brown et al. 2006). These social bonds take time to develop, but their increasing strength can become a function of their problem solving capacity – and ethical behavior. The more the actors observe fairness in conflict situations, the more they are able to look beyond these single acts and weight the value of the whole relationship.

In asymmetrical relationships imbalanced possession and use of resources can give one company influence and domination over the other party (Holmlund & Kock 1996, Mouzas & Ford 2006). Asymmetry is a structural relationship characteristic and has therefore not been much discussed in business networks. In networks the emphasis has been on mutual resource use, adaptations and the creation of interdependencies whereas power-dependence concerns have been considered more a relationship or portfolio-level issue (Dubois & Pedersen 2002; Mouzas & Ford 2006). However, according to Mouzas and Ford (2006) the existence of interdependencies does not imply that the companies would be equally affected by them or that the actors would have chosen to become dependent irrespective of the asymmetry. Even when there is a ‘joint consent’ between the actors, the ethical issues that emerge as a result of the asymmetries are various, ranging from the unequal sharing of risks and benefits to limited development of resources and capabilities for cooperation, all issues that may require balancing activities from the less dominant actors (Mouzas & Ford 2006). In sum, continuity, adaptations, informality and potential asymmetries that characterize exchange relationships create conditions, where ethical norms have particular significance for relationship governance and the actors’ behavior as either ethical or unethical is also likely to affect business performance.

Examples of ethical network behavior in business networks

Acknowledging the challenges in studying ethical exchange behavior, we still provide examples concerning its importance in business networks. These examples are based on reported cases in business press and they represent Finnish machinery and mobile phone industries. The first case focuses on positive ethical behavior and the second case shows how neglecting ethics can start degrading the network.

Ethical behavior contributing to the competitiveness in the network of a tractor maker – the Valtra case¹

Belonging to AGCO Corporation, Valtra is a Finnish tractor manufacturer, in business since 1950's. Its activities rely heavily on a well-functioning network of 200 subcontractors, of which two thirds are Finnish companies. Valtra has been able to keep its production in Finland highly competitive due to the customization of the tractors, tight cost monitoring, and the know-how of the subcontractors. In addition, the advanced just-in-time logistics, which similarly to the automotive industry is essential for the tractor manufacturing, has made replicating network and moving it to another location very difficult. Besides single components, Valtra's suppliers also sell integrated solutions and systems.

Valtra has understood suppliers' reliance on its business, and it also acknowledges the criticalness of each supplier and their capabilities for its operations. The tractor manufacturer is thus fully aware that suppliers' performance is strictly tied to the tractor market development and that its decisions influence the financial situation of the suppliers. During the economic downturns, Valtra's aim is to refrain from drawing subcontracting work back in-house, although it might be a more profitable decision momentarily. This is backed up by Valtra's recognition that it is impossible for the suppliers to stay in business if it would choose to cut back its orders; in long-term this might imply loss of important resources and capabilities for Valtra. Ethical behavior of Valtra towards its suppliers manifests itself thus in its purposeful actions to maintain economic fairness, because it has realized that the network supports its competitiveness in the long-term. As a company leading the network and with the prevailing interdependencies it could use the asymmetric position it holds for its own benefit, but refrains because this would hurt first the suppliers and eventually Valtra's own success.

However, Valtra also requires much from its suppliers and makes clear what are the economic requirements, using monitoring to ensure that the economic goals are achieved. At the same time, it has committed itself to contribute to the supplier capabilities by developing together quality and production management systems, and seeking jointly for cost reductions. According to the agreements the suppliers are required to bring every year ideas that contribute to the cost reductions and the benefit is shared by the parties. Behaving ethically thus does not imply loosening the touch for the business, but creating a more satisfying environment for the parties to work with. When the suppliers get a wider view on the business of their customer, they also understand why the improvements are required. They also make considerable adaptations to walk at the same pace with the customer: work shifts, vacations and maintenance breaks are tightly synchronized with Valtra's schedule.

Following the principles of procedural justice, the company has also developed a method of convening with the supplier firms' key trustees two times a year to review the business

¹ The Valtra example is based on Tasala (2010) and Hernesniemi and Nikinmaa (2009)

prospects and the working terms. This has improved firms' reactions to critical situations, for example, when the negative market development calls for quick workforce adjustments from both parties. This practice is also appreciated by the suppliers, because the openness gives them a truthful and up-to-date picture of what are the expectations concerning the business, especially when the relationship with Valtra forms the major stake of their business. The ethical requirements of Valtra towards the foreign subcontractors are very strict and the company monitors the origin of the goods by visiting the partners, but also agrees that it is very difficult to verify that each link in the chain is acting according to the ethical standards it has set.

Nokia, the Finnish supply network and the struggle of the changing mobile phone industry²

During its golden years, Nokia's strategy of outsourcing extensively expanded its supply network in Finland and consequently created a cluster that was able to enjoy the success of the rapidly growing telecom industry. When a downturn hit the business, the domino effect eventually took down many Finnish subcontractors. Recognizing that different parties represent their own views in networks, also provide some explanations for why this took place. The subcontractors have described how the unjust demands, and from the analytical point of view, the lacking distributive and procedural justice from the Nokia's side, pushed them out of the business, whereas another version hold that the subcontractors lost their competitiveness; they were not ready for new technologies in due time, because they had neglected their in-house development (Eloranta et al. 2010). We suggest that one thing can also lead to the other.

One of the suppliers in the network was Elcoteq. With the promises of growing business and requirement for exclusivity, Nokia Mobile Phones demanded from its subcontractors, including Elcoteq, large investments in new factories, dedicated for supplying Nokia's production. When the investments had been made, Nokia started demanding price concessions, revealing to the suppliers its "seduce and squeeze" tactics. In the beginning, it was still bearable, as the volumes went up together with the suppliers' turnover. However, the asymmetric setting took its further toll when the mobile phone business started to decline and the suppliers realized how the interdependencies that had been created were now pushing them to the corner. Nokia started pressing Elcoteq and its other subcontractors by taking a vigorous stand on what has been written in the contracts and demanding continuously price concessions.

In this situation even the good social relationships lost their meaning as the subcontractors learned to know the real, hard face of the international public company as a business partner. All this was possible, not only because of the subcontractors and their submission to the conditions of an easy business, but also the use of dominant position their customer had achieved. If the subcontractors expressed their opinions or refused things they were asked, they were sometimes "punished" and the reprimands had to be accepted. In the end, Nokia's decision to move the production increasingly to the Far East left the Finnish suppliers with declining business. They maintain that Nokia forced them to work with such small margins after the investments had been made, that it was impossible for them to resist once the Asians started taking over the industry. For the same reason of diminishing financial resources they

² The Nokia example is based on Kuusela (2013)

were not able to invest in establishing new customer relationships besides Nokia. For them, the use of the same strategy, moving production to low-cost locations, was just too late.

Although it is difficult to draw conclusions concerning how more ethical approach to its supply relationships would have influenced to the further fate of the Nokia, later acquired by Microsoft, at least we can suggest that its lack of ethics contributed to the fall of the Finnish subcontractors. These, however, should possibly have been able to foresee at least some of the development and take action earlier without relying on false security of doing business with their countrymen and trusting their loyalty.

However, now, ignoring the economic fairness and knowing that the suppliers would not refuse, Nokia focused on bargaining, but at the same time procedural justice was also lacking. Had the customer been more open to discuss the economic situation and the requirements concerning suppliers' technological capabilities and hearing the suppliers' voice in the process, perhaps the suppliers would have remained more competitive and also contributed to the customer performance. As a large organization Nokia lost its ability to listen other external signals as well, including the end customer preferences. Also, had it followed the overall development of the industry, it would have been able to produce the solutions it demanded. The suppliers, as weaker organizations in b-to-b relationships, learnt to tolerate imbalance of mutuality and reward, sacrificing profitability for exclusivity (Hingley 2005). This happened to Elcoteq as well - its bankruptcy was declared in 2011. Keeping in mind Nokia's extensive impact on Finnish economy in its highest years and the high revenue it generated to its suppliers during the good years, it is understandable that researchers and media were not able to openly discuss these negative developments. The subcontractors were also tied to the strict term sheet conditions.

PROPOSITIONS FOR FUTURE RESEARCH ON ETHICAL BEHAVIOR IN BUSINESS NETWORKS

The two examples clearly show that ethics do matter for business networks. They also nicely support the argument of Ivens and Pardo (2010) that we need to extend the dyadic view into a networks view in order to understand ethics in b-to-b exchange. Emphasizing the role of connected actors they posit that a business relationship can only be referred to as ethical if the positive outcomes it creates for the relationship parties do not produce negative effects to other actors. Törnroos and Lindfelt (2006) similarly stress the role of connected actors while proposing the notion of ethical embeddedness. They pinpoint the fact that a company's value creation processes are dependent on its key relationships and ethically dubious activities by key counterparts may severely harm the value creation.

Based on the existing literature on ethics in networks and the fundamental characteristics of exchange in business networks it is possible to suggest topics for future research that would importantly extend our knowledge on ethics and its ramifications in multi-actor business settings. Table 1 portrays some major themes and related research questions where future research would be needed. These themes will be discussed next.

Table 1. Themes and questions for future research on business network ethics

Theme	Assumption	Research questions
<i>Ethical climate and ethical conflicts in networks</i>	Network actors develop a specific ethical climate for a network over time	What are the mechanisms of ethical climate evolution? What is the role of single companies or non-business actors in the formation of ethical climate?
	Network-specific climate is unlikely to emerge, since organizational and national cultures are fundamentally different and create ethical conflicts in network interaction.	What kind of problems do the differing views on norms and behavior create for the functioning and management of networks? How do conflicting views affect the performance of the network or the value created to the involved network actors? How can these differing views be reconciled?
<i>Embeddedness of economic action in societal and social layers</i>	Economic exchange and value creation are embedded in social context and interpersonal relationships that importantly influence the ethicality of business interaction.	How companies cope with societal actors with varying ethical standards in order to enable their business activities? How do strong personal relationships influence the ethical behavior of business people as representatives of their companies? What are the mechanisms through which the ethical behavior of business people in their social networks affects the business outcomes?
<i>Creating value with ethical behavior: impacts on performance, satisfaction and reputation</i>	Ethical behavior in business interaction improves business performance for the whole network and creates value for its members through satisfaction and positive ethical reputation.	Is a network exposing high ethical standards in its interactions able to outperform a network enacting lower ethical standards? In what kind of network conditions ethical/unethical behavior is likely to pay off? How important ethical reputation is for the network members and possible entrants? What kind of value ethical reputation potentially creates? What is the role of the most dominant members' corporate reputation for the network?
<i>The role and manifestations of ethical behavior in different types of business networks</i>	Depending on the type of the network, ethics manifest itself differently and specific ethical questions appear.	How does ethical behavior manifest itself in different types of networks? How does the temporal orientation or rate of

		technological change in a network impact ethical behavior in networks?
<i>Link of ethical behavior to performance</i>	Ethical behavior in business interaction improves business performance for the whole network.	Is a network exposing high ethical standards in its interactions able to outperform a network enacting lower ethical standards? In what kind of network conditions ethical/unethical behavior is likely to pay off?

Theme 1. Ethical climate and conflicts in a network

Ethical literature in marketing and organization research has mainly conceived ethics as moral judgment related to decision making of individuals (Ferrell, Johnston & Ferrell 2007; Hunt & Vitell 2006; Treviño & Nelson 2004). Moral judgment has been defined as moral reasoning of individuals for the purpose of considering some decision right or wrong (Treviño, 1986). It is also a common assumption that the values of individuals differ being dependent on the moral values and maxims of cultural, organizational, professional, and industry environments where people live and work (e.g. Hunt & Vitell 2006; Boyd & Webb 2008). In a study of strategic alliances, Boyd and Webb (2008) specifically examine organization-level ethical climates and the potential conflicts their differences may create in strategic alliances. Organizations may differ in terms of ethical orientation reflected in either deontological or teleological emphasis, or in terms of the level of moral development reflected in the emphasis on self-interests or alternatively mutual interests in decision making (Boyd & Webb 2008).

Based on these assumptions a number of intriguing questions emerge from the network research point of view. First, could business networks like organizations, industries or professions, create a specific ethical climate and what are the mechanisms for its creation? The concept of ethical atmosphere proposed by Lindfelt and Törnroos (2006) supports this option. Ethical atmosphere includes “questions of what is considered right or wrong and not only questions of economic, strategic and business sustainability between actors interacting in the network” (p. 341). For instance, could supplier and customer relationships of a powerful actor or companies cooperating in new product development produce their own ethical climates? Organizations (Klemm Verbos et al. 2007) and industries (Payne & Dimanche 1996) are known to construct particular ethical climates as part of their cultures that form the base for their ethical behavior. We also know that professions tend to emphasize ethical codes of conduct in order to cherish respect and trustworthiness towards their profession and to legitimize their activities in the society.

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

Alternatively, the network actors could maintain their divergent views on ethical norms and behavior based on their different organizational cultures (Boyd & Webb 2009, Klemm Verbos et al. 2007). Networks typically extend to different industries and professions and interaction occurs between various companies and organizations from different geographical areas and cultures. This means that networks necessarily function in an intersection of various ethical views. In contrast with the network-specific ethical climate, it might be even more probable that companies and their representatives have various conflicting ethical views that then create a challenge for value creation, performance and continuity of business. Different ethical climates could develop in different disconnected parts of the network for instance due to geographical distance between supply chain members (Zakaria, Zanda & Sobeih 2012).

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

Related to the scenario of conflicting ethical climates several research questions also emerge: What kind of problems do the differing views on norms and behavior create for the functioning and management of networks? How do they affect the performance of the network or the value created to the involved network actors? And how can these differing views be reconciled?

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

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

The societal context of companies comprise of political, cultural and legal environments where their business is influenced by the interests of various stakeholders and where they also interact with a range of non-profit actors and organizations in order to safeguard positive conditions for their business (e.g. Hadjikhani 2000; Robin 2009). In these interactions companies need to reconcile between various different interests and adjust dissimilar value bases that bring them unavoidably in terms with ethical issues. In their study on competitive tendering in construction business, Crespin-Mazet and Flipo (2009) revealed the limitations of ethical codes and legal directives in fostering ethical practices. Also Ivens and Pardo (2010) emphasize the role of broader social context, different company stakeholders and non-

profit organizations for creating understanding of ethics in b-to-b exchange. The stakeholder theory has commonly been applied in approaching ethical issues in business (e.g. Treviño & Nelson 2004; Robin 2009) and it has also been considered useful as it brings the society level into network analysis (e.g. Ivens & Pardo 2010; Törnroos & Lindfelt 2006). The question thus emerges of how companies cope with different societal actors with potentially different ethical standards to enable their business activities?

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

The question can be posed, whether perceptions of primarily interpersonal aspects, i.e. interactional justice, enhances the distributive justice, or are they independent dimensions of ethical behavior? The results of Brown et al. (2006) from channel relationships indicate that distributive justice is simply an overriding fairness criterion for companies and even if the social elements are in place in an exchange relationship – there is trust, honesty, transparency – these will not necessarily be associated with perceived fairness in sharing economic outcomes. Yet, if there is a connection, could it even be that strong personal relationships harm the fair division of outcomes for the interacting companies, while people prioritize their friendship to the detriment of the business relationship. With a focus on social networks, Melé (2009) suggests that strong personal relationships can foster both good and bad behavior from an organization's point of view. Important research questions for business networks thus transpire: How do strong personal relationships and social networks potentially influence the ethicalness of people's behavior as representatives of their companies? What are the mechanisms through which ethical behavior of business people in their social networks affects the business outcomes either positively or negatively? Which kinds of business conditions are conducive to unethical social behavior and negative outcomes for the business network?

Theme 3: Creating value with ethical behavior

For the purpose of value creation, ethics has been given an instrumental role in b-2-b context and it has been considered as part of the co-created "offering" (Lindfelt & Törnroos 2006; Ramirez 1999). While the previous research has focused on the ethicalness of the process, e.g. studying ethically driven value created in cooperation with end customers (Arvidsson 2008), we extend the view towards its outcomes for business actors: the impact of ethics on their performance and satisfaction in the network and the significance of ethical reputation potentially accruing value for the actors.

The evidence we have so far of the positive outcomes of ethical behavior for business performance and satisfaction originates largely from dyadic relationship studies rather than network analysis, but based on the findings it is possible to draw initial propositions for establishing a linkage between ethics and the two outcomes. According to Luo (2009) the distributive justice conceals an important performance mechanism: the experienced fairness in exchange and sharing its economic outcomes increases partners' commitment to

cooperation, deters opportunism, lessens relational risk and reduces the need of monitoring. On the contrary, an unfair treatment of the partners may weaken incentives to ethical behavior and they may start working against each other's interests resulting in conflicts and instabilities (Luo 2009; Johnson, Korsgaard & Sapienza 2002). The study of Brown et al. (2006) on wholesaler-supplier relationships examined the connection between perceived economic fairness and satisfaction. When firms perceived that the economic outcomes were fairly divided and channel procedures fairly managed, this increased their satisfaction and reduced conflict with their channel partners. Expectedly, economic fairness was dominating over the procedural fairness, implying that procedural justice alone was not able to satisfy the partners, but satisfaction also required high distributive justice to occur.

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

In the connected business world good reputation is an important asset (Fombrun 1996), which recently has also been related to partnerships (Money, Hillenbrand, Day & Magnan 2010; Wathne & Heide 2004), supporting the idea of examining value of reputation even for networks. A network's reputation forms a potential foundation for actors' expectations concerning network processes and outcomes, whether social or economic (Money et al. 2010). We suggest that reputation in a b-to-b context involves besides the other reputation dimensions, for instance, financial performance, employment related, also ethical elements that complement and are intertwined with others. Reputation can also have ethics-related characteristics that other organizations find important, e.g. an organization can be perceived as a good listener. In the network context, positive reputation can have significance in attracting good quality partners (Cravens, Goad & Ramamoorti 2003; Money et al. 2010), securing the existing relationships and bringing new business to the network members (Hoejmose et al. 2013) and helping achieve various other business goals (Christopher & Gaudenzi 2009).

However, in the network the need of each network member to participate in building a positive image is amplified, because reputational risks form a real threat as network members may also easily damage a network's good reputation if they are engaged in unethical activities (e.g. Christopher & Gaudenzi, 2009; Daboub 2002; Lindfelt and Törnroos 2006).

Examination of reputation and its ethical elements should therefore focus on their importance to the network members, and the possible entrants, but also considering other stakeholders. It is essential, what kind of value ethical network reputation creates, to whom and what would be its true impact on a network's attractiveness? For instance, does an actor pursue entering a network even if its ethical reputation is poor and in which conditions this might take place? Power asymmetries are likely to affect the ethical reputation, and therefore it would be

interesting to examine the role of the strongest and most reputable actors in driving the reputation of the whole network.

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

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

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

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

We may thus assume that different type of network potentially foster different types of ethical norms and behavior. Future research should examine carefully how ethical behavior manifests itself in different network contexts.

CONCLUSIONS

In this paper we have discussed the issue of ethics in business networks. Based on literature review we showed that a major research gap exists in business network research in this area. So far, research has not been able to produce any established theoretical models or even concepts to understand what is ethics and ethical behavior in business networks. Empirical

research is very scarce, and practically no empirical evidence of the impact of ethics and ethical behavior on the functioning or performance of networks is available. Existing research is overall limited and has looked upon exchange relationships, joint ventures and alliances without paying attention to the broader network effects.

However, as we demonstrate, ethical norms and the behavior they generate, form an essential element of interaction in business networks where actors with different interests meet. Ethical norms function as an important governance mechanism for business exchange. Ethical norms and behavior are likely to contribute to the stability of the relationships and to contribute positively to the reputation, performance and eventually competitiveness of companies and networks. Yet, all this is so far only founded on theoretical reasoning, supported by some empirical cases from business press. Proper empirical evidence is still missing.

Based on existing literature on ethical issues in business context more broadly, we identified four major themes potentially relevant for network ethics research. These themes are broad and provide a basis for several intriguing research questions to be posed in future research. Ethical climate and conflicts concern ethical behavior and its emergence in a network setting. Different types of business networks and the embeddedness of networks in societal and social layers relate ethical behavior to different contexts and settings. Creation of value through ethical reputation and competitive advantage brings in the viewpoint of external actors to the networks. All themes encompass a managerial viewpoint to ethics, how the ethical behavior could be better identified and recognized and how ethics could be used to create better performance for the company and its partners.

As a final note we still want to stress that business networks forms a complex object of study and studying ethics, a complex and multifaceted phenomenon in itself, in such a context is evidently not an easy task. Despite the challenges the topic of ethics pose for empirical research, we encourage network scholars to tackle the issue, and hope that the four themes we distinguished for future research form a helpful basis for such an endeavor.

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