

**Corporate Social Responsibility and Ethical Exchange Behavior:  
Cornerstones of the Ethical Network Reputation**

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## **Abstract**

Studies encompassing ethical reputation in the business sector often refer to corporate social responsibility (CSR) as its foundation, widely recognizing the significance of creating value for firms targeting consumer markets, but failing to address the network-wide effects and creation paths in a B-2-B context. Ethical exchange behavior as a reputation mechanism has been approached mainly from the negative side, focusing on opportunism. Only recently, positive exchange behavior has been suggested as a source of reputation. By expanding the definition of reputation from individual companies to include partnerships and networks, this conceptual study suggests that ethical reputation is formed by these two elements: corporate social responsibility and ethical exchange behavior.

Ethical reputation, in terms of CSR, has received attention because of the increasing reliance on global supply systems. It is suggested that ethical exchange behavior, as a reputation element, can be used to signal the attractiveness of a network or an actor and garner valuable external resources that support its competitiveness. The elements of ethical reputation are explored from the network perspective. Ethical reputation, as a function of CSR, is influenced by each network actor. Ethical exchange behavior, conceptualized with equity theory and approached via relational and network theories culminates in fairness in economic and social terms.

## **INTRODUCTION**

Corporate reputation (CR) has been recognized as an important asset for businesses because of its great potential for value creation (Fombrun & Van Riel, 1997; Maden et al., 2012; Roberts and Dowling, 2001). For this reason, corporations are investing more heavily in promoting their positive brand and corporate image while attempting to highlight their equitable strategies and social orientation (Christopher & Gaudenzi, 2009). A visible involvement in corporate social responsibility (CSR), i.e. launching programs to promote ethical conduct in the supply chain and taking environmental initiatives, has been found to be useful in fulfilling this goal (Boyd et al., 2007). The attention paid to corporate ethics has thus become an integral element of CR (Hillenbrand & Money, 2007). This is evidenced by growing corporate awareness of how critical ethical conduct is in the eyes of customers and other stakeholder groups, such as investors and society as a whole (Hoejmoose, Roehrich & Grosvold, 2013; Mutch & Aitken, 2009).

CSR, commonly approached via the stakeholder theory, (van Marrewijk, 2004; Lindfelt & Törnroos, 2006; Neville, Bell & Bülent, 2005) can be regarded as a response to the new reputational challenges that have emerged as several major industries now rely on the extensive use of outsourcing and multi-tier global supply networks. It has become obvious that ethical concerns in these supply networks can have widespread effects especially on the brand of a highly visible network actor, such as IKEA, Nike, Gap and Wal-Mart (Amaeshi, Osuji & Nnodim, 2008; Andersen & Skjoett-Larsen, 2009; Boyd et al., 2007). A shift is taking place from overemphasis on the corporate reputation to heightened awareness of the “network reputation” that is created collectively by the network actors. The downside of this collective reputation is the loss of control by any one actor within the network actor; negative publicity can paint the entire network with the same tainted brush. Media reporting concerning business ethics in general, and possible breaches in ethics in particular, tends to be unbalanced. Positive developments in supply networks can pass by practically unnoticed,

whereas any scandal is widely reported with the media often providing a quick yet not always fair, trial for the parties involved (Guo, et al., 2012).

CSR has been discussed widely in the literature from the supply chain perspective (Amaeshi, et al., 2008; Boyd et al. 2007; Hoejmose et al. 2013), emphasizing its relevancy for firms with offerings that target consumer markets. Despite the relevancy of the multi-actor environment, the network perspective has been used only on a minor scale (Lindfelt and Törnroos 2006). The industrial network approach complements the relevant supply chain literature, thus extending the examination of the phenomena and providing insights that go beyond dyadic relationships.

This study suggests that ethical exchange behavior as a reputation element concerns every exchange relationship and that ethical reputation is not only a matter of CSR. In earlier research, opportunism has been described as a mechanism producing a negative reputation that can alienate firms and prevent them from cooperating with each other (Hawkings, 2013; Hill, 1990; Wathne & Heide, 2000; Williamson, 1985). This choice is logical, since it is more straightforward to study opportunism than positive exchange behavior influencing reputation. Various forms of opportunism are easily discernible, (Wathne & Heide, 2000) whereas the view of what actually constitutes ethical exchange behavior and what are the results of this behavior are still emerging (Goebel et al. 2010; Ivens & Pardo, 2010). Although opportunism is not present in every relationship, examining exchange behavior from a positive angle can open new avenues for understanding its reputational effects for B-2-B actors. The model of Money et al. (2010) highlights this shift by including elements that are vital for business relationships; mutual understanding, synergy and flexibility of interaction is proposed to third parties as an integral part of the effectiveness of these business partnerships. The relational characteristics used in reputation studies include the underlying premise that positive reputation is based on ethical exchange behavior in the B-2-B context. Trust, benevolence, loyalty and commitment among the business partners produce reputational outcomes that also can have monetary value (Arend, 2009; Christopher & Gaudenzi, 2009; Gundland, Achrol & Menzer, 1995; Money et al., 2010).

By suggesting that ethical exchange behavior forms another element in ethical reputation, this study draws on the relational view and the equity theory which put forth the notion that ethical behavior rests on economic and social fairness in the relationships (Greenberg, 1987; Gundlach & Murphy, 1993; Ivens, 2004; Luo, 2009). The study aims at conceptualizing which elements of ethical behavior are relevant for ethical reputation. Although ethical behavior in a network context has received limited attention so far, (Melé, 2009; Lindfelt & Törnroos 2006) it is suggested that the study of interconnected relationships can contribute to understanding how these connections influence the way that ethical behavior emerges and spreads within networks.

By emphasizing the significance of ethical reputation for businesses operating in networked environment, it is proposed that the structural elements of ethical reputation are CSR and ethical exchange behavior. This study aims at exploring and analyzing their characteristics, their development and the significance of their outcomes from the network perspective. The focus of this study is firstly, from the part of CSR to identify the role of the network in creating and maintaining ethical reputation. Secondly, in addition to the examination of the key dimensions of ethical behavior that make up ethical reputation, the study also examines the outcomes that should encourage firms and networks considering and developing ethical reputation. The study discusses ethical reputation in terms of network life cycle, suggesting which phases are relevant for each reputation element. The division between existing network

actors and potential ones, as well as other stakeholders, helps to clarify who are the targets of each ethical reputation element. Clarification of the nature of the concepts is reviewed in this study. Due to their interrelatedness, the boundaries between the two, CSR and ethical behavior, are sometimes blurred when they are used in B-2-B relationships and networks (Goebel et al., 2010; Money et al., 2010; Raman, 2011). CSR refers to any planned activities that are undertaken with the express purpose of addressing the ethics related matters in the network and operating in a sustainable manner. Ethical exchange behavior, on the other hand, refers to relationships, their processes and outcomes involving social and economic dimensions.

This conceptual study uses examples from the business press to describe firms' activities and business environment influences on their ethical reputation; these examples are used to illustrate the theoretical concepts of the study. The firms in these examples are operating in the networked environment. However, since the reputational effects often highlight the most visible network actors, these same network actors also receive the most attention in our examples. This paper has been structured in the following way: the proposed elements of ethical reputation are discussed separately, the first section focuses on CSR and the second section discusses the ethical exchange in B-2-B contexts. The third section presents conclusions and proposals for future studies.

## **ELEMENTS OF ETHICAL REPUTATION – A NETWORK APPROACH**

### **Elements of ethical reputation - CSR**

Corporate reputation has been recognized as a valuable intangible asset of strategic importance that has become increasingly significant relative to increasing the objective of customer loyalty (Fombrun & Shanley, 1990; Fombrun, 1996; Maden, et al. 2012). According to different definitions, corporate reputation refers to the overall evaluation of a company by its stakeholders, who decide whether or not to hold the firm in high regard and who assess its relative standing among its corporate rivals (Gotsi & Wilson, 2001; Shenkar & Yuchtman-Yaar, 1997). Reputation can be evaluated based on personal experience, word-of-mouth or media reports and via various corporate activities and their outcomes, such as financial standing, marketing, human relations and positioning against competitors. How stakeholders interpret the organizational actions can provide the corporation different reputations based on the stakeholders' implied interests (Bromley, 2000; Fombrun & Shanley, 1990; Fombrun, 1996).

The stakeholders are increasingly evaluating the ethical stance of an organization; the significance of the ethical dimension of corporate reputation is put forward by the recognition of the CR and CSR as similar and overlapping concepts. Apart from philanthropy on its own merits, the CSR concept is broadened to encompass responsible conduct in day-to-day operating practices and strategies as well as its impact on society and the environment (Hillenbrand & Money, 2007; Mutch & Aitken, 2009). A firm's interest is to protect and enhance its reputation; it is motivated to engage in CSR for the purpose of creating welfare, positive impact and credibility with respect to key stakeholder relationships (Barnett, 2007; Hojmosse et al., 2013). Vilanova et al. (2009) further suggest that when CSR will be evaluated by the financial sector as a criterion to assess companies, then CSR will become a valued and viable aspect of strategic business planning.

## **CSR in networks - competitiveness and reputation protection**

Industrial Networks Theory focuses on describing and analyzing business networks that are comprised of interconnected exchange relationships (Axelsson & Easton, 1992; Anderson, Håkansson & Johanson, 1994). The business relationships, whether direct or indirect, influence the business actors and determine their very existence in the business markets (Håkansson & Snehota, 1995; Ford & McDowell, 1999). Relationships are formed and maintained for the purpose of resource integration; it is vital for the business actors to gain access to other actors' resources and modify them in order to provide new resource constellations (Håkansson & Snehota, 1995). Thus, the industrial network approach receives resources residing partly outside individual firms' boundaries, which has implications for the way in which networks will maintain close cooperation among the network actors.

The networked reality in supply chains is described as multi-tier supply networks competing against other networks rather than just individual firms (Achrol, 1997; Christopher & Gaudenzi, 2009). This has changed fundamentally the way corporate reputation is perceived. Reputational concerns have moved beyond an individual firm and are now out of its direct control, while moving toward relationships, and networks. Networks, often led by the brand owner, can deliberately develop and manage their CSR activities in order to assure the relevant stakeholders that their actions are ethical in terms of labor conditions and environmental protection (Andersen & Skjoett-Larsen, 2009; Boyd et al., 2007). Supply chains acting in a socially responsible way can be used as a means of enhancing brands, differentiating themselves from the competitors and influencing the purchasing decisions of individual customers. Customers are more aware of the ethical issues surrounding to goods and their origin and have also increasingly started to demand more ethical conduct from business leaders (Paulin & Ferguson, 2010; Vilanova et al., 2009).

Therefore, according to Hoejmose et al. (2013) ethical reputation is even more crucial for B-2-C companies, since they also pass on consumer expectations and demands to other business actors in their supply networks. According to this study, customers are able to distinguish between real actions and "window dressing." For this reason, B-2-C companies do not only use various screening mechanisms to verify and enforce the standards of their partner companies, but also create ways to convince the customers on the ethicalness of their suppliers. Among the instruments used are social labeling, which informs the public of the firm's adherence to an established set of criteria, e.g. ethically grown raw materials and codes of conduct that inform the stakeholders about the observance and enforcement of certain policies in the firm's production and general operations (Boiral 2003). Practicing CSR has been found valid and purposeful in reputation protection, but it has been challenging to achieve any further competitive advantage with reputation enhancement (Hoejmose et al., 2013). By deliberately choosing and communicating ethical strategies, firms simultaneously take a calculated reputational risk if they are not being able to deliver what they promise in terms of ethical conduct. In cases like Zara, they are exposed and draw unwanted attention if there should be any scandals revealing the polar opposite of the touted highly ethical and moral standards (Roper 2012).

The risk of damaging one's ethical reputation by the irresponsible actions taken by actor in the network, however, is not limited to the use of reputation as a competitive weapon in business-to-consumer firms. The gap existing between the desired ethical standards and the actual conditions in the supply networks (Boyd et al., 2007; Christopher & Gaudenzi, 2009)

makes it an actual concern for B-2-B companies as well. Even companies without direct contact with end customers and outside the domain of social and environmentally sensitive industries, e.g. technology companies, have chosen to follow responsible supply chain management activities to protect their reputation (Hoejmose et al. 2013).

### **Ethical network reputation is constructed by the network actors**

The network effects concerning ethical reputation manifest in the way that outcomes are divided. While each network actor influences the ethical reputation and the way it is perceived by the stakeholders, the consequences are not evenly distributed by the network actors and that the most visible member of the network carries, at least momentarily, the most reputational damage from any harm done by the supply network (Andersen & Skjoett-Larsen, 2009). Furthermore, even if there are many visible and reputable companies involved in a given scandal, the negative publicity can also be divided in an unequal way among them. For example, during the Foxconn case, Apple received a great deal of negative publicity, although it was only one of the many well-known customers that Foxconn had, in addition to Hewlett-Packard and Dell. A deeper look into the matter points toward employees' psychological problems being behind their crisis rather than human rights violations (Guo, Hsu, Holton & Jeong, 2012). This case also demonstrates that the public at large may not be interested in what is the ultimate "truth" behind such events, but that the first impression that is portrayed and received by the public will ultimately prevail. For the firms that plan and develop their CSR, this implies a constant element of uncertainty in this process.

Negative media attention and consumer boycott can have a negative impact on an individual company and the tarnished network reputation can be difficult and expensive to repair for any party in the network (Christopher & Gaudenzi, 2009). Consequently, the whole network can suffer financially from scandals. The appeal of subcontractors may diminish in the eyes of potential new customers who hesitate to get their names involved in similar proceedings. Because of the inherent dangers and low standards, the most visible business actors are most often those initiating improvements in supply chain practices, which, requires substantial monitoring of the suppliers (Andersen & Skjoett-Larsen, 2009; Boyd et al., 2007).

Developing and applying CSR policies requires cooperation from the network actors and their collective efforts in establishing and maintaining the network's reputation. According to Boyd et al. (2007), in an ideal situation, each supply chain company understands the need for the ethical sourcing programs for the express purpose of improving its competitive position. Equity theory, which is based on social psychology and which includes motivations in an organizational context (Adams 1965; Cook & Messick 1978; Greenberg 1987), introduces such concepts as distributive, procedural and interactional justice. These have been discussed to a greater extent in studies defining ethical exchange behavior (Luo, 2006; Luo, 2009) and will be re-visited in the chapter discussing that topic. The framework based on equity theory emphasizes fairness in economic terms, i.e. fair sharing of the outcome in relation to the input, also known as distributive justice. Procedural justice, having each actor's voice heard in any process (Leventhal, 1980), has also been found relevant for establishing a foundation for CSR programs (Boyd et al., 2007). Interactional justice represents the interpersonal aspect of justice and acting according to the accepted behavioral norms (Luo, 2009). For the purpose of integrating the suppliers into the programs, the firms initiating them need good communication channels. Code of conduct, which is the most visible tool used by multinational companies, should be shared in an open and understandable manner. They should also consider the views of the suppliers in the program development (Andersen & Skjoett-Larsen, 2009, Boyd et al., 2007). This has been implemented by the furniture giant

IKEA. Instead of demanding certain level of quality, price, service and environmental and social responsibility from its suppliers, IKEA now participates in development alongside the suppliers (Andersen & Skjoett-Larsen, 2009). The results of Hoejmose et al. (2013) support this view, as their respondents point out the importance of aligning corporate strategies with supply chain strategies and involving everyone, suppliers and customers alike, when CSR policies and programs are being developed.

### **Distributive justice in network forms a basis CSR and ethical reputation**

A dispersed network creates limitations for managing ethical reputation. A snap judgment of network leaders who have problems with their suppliers, in spite of their efforts to improve the situation, can be a one-sided analysis of the situation. Corporations often report difficulties with influencing their distant counterparts, because the causes for unethical working conditions are often deeply rooted in the institutional differences that characterize the societies and communities (Porter, 1990). These inherent differences make the process of undertaking improvements very slow and uncertain in spite of the thoughtful actions that are taken. Examples of such cases are Finnish companies Stora Enso and Marimekko-Iittala that have faced accusations concerning human rights violations of their supply partners located in Asia. These companies have explained their efforts in earnest of rooting out unethical activity, but at the same time, they are handicapped by the complexity of accomplishing these tasks in different cultures. (Stora Enso: Lapsityövoiman kitkeminen vie vuosia, 10.3.2014; Stora Enson tiedote 3/14; Juvonen, 2013). Thus, culturally bound values and ethical standards deviating from those of the Western world raise questions as to how far companies actually can go when trying to improve the situation within the supply network, including several layers of indirect supplier relationships (Amaeshi et al., 2008; Falkenberg & Falkenberg, 2009).

The network actors that influence how the supply network is doing financially, should, provide the means for carrying out the CSR policies when necessary. Whether it involves providing direct support for improvements or revising supplier margins, the bottom line is that building ethical reputation can be costly, but rebuilding it can be even more costly. This implies the necessity of moving beyond procedural justice toward distributive justice. Sharing a code of conduct with suppliers and teaching them the norms of the network seldom forms a sufficient basis for the implementation of ethical program. Sharing the economic burden requires the alignment of activities and the investment of time and financial resources among the supply chain partners (Hoejmose et al., 2013). Goebel et al. (2010) also point out that customers always have a choice to select suppliers that are oriented toward sustainability.

The multinationals have begun to understand that when the supply chains are widening, the setting is unfeasible from the start. The search for low-cost suppliers in remote locations, often pushed to the edge of being profitable, might not result in finding firms that voluntarily make ethical issues or the required investments in improvements their top priority. In one extreme case, the Bangladesh garment factory fire might have been prevented, if months before the fatal disaster, the key customer Wal-Mart would not have turned its back on the Bangladesh suppliers' plan aimed at improving factory conditions. The customers would have participated in its financing by paying a higher price for the apparel manufactured by the Bangladeshi suppliers. Wal-Mart denied the allegations, claiming that the supplier was working without authorization in that particular factory (Greenhouse, 2012). This case also demonstrates that statements concerning ethical values do not always lead to ethical behavior

with the exchange partners. On the other side of the spectrum, Wal-Mart had started a program to make its logistics more environmentally friendly (Boyd et al., 2010).

Similarly, Hawkins et al. (2013) found that corporate ethical values are favorably related to behaving opportunistically, the opposite of the expected outcome and the notion that the expectation of ethical behavior does not extend to supply partners. Large and highly visible corporations, in particular, can implement CSR as a strategy to reflect positive corporate image, but continue to behave unethically toward their suppliers with actions that are invisible beyond the supply network. Unethical behavior does not need remote supply networks to manifest; it can be an issue within local relationships and networks, leading to damages in ethical reputation even without human right violations. According to Santana, Vaccaro and Wood (2010), the way that networked firms perceive their boundaries influences how ethically they actually behave in the network. The more that network actors understand the interdependent nature of business relationships and blurring boundaries of their organizations, the more likely they are to adopt an ethical approach toward the other network actors. The basis for CSR and ethical reputation is created by distributive justice – fairness in economic terms. The following section defines ethical exchange behavior as the second element of ethical reputation, discusses its network effects and significance of the reputational outcomes in the B-2-B context. It is suggested that ethical exchange behavior in network function as a positive reputation mechanism that attracts partners, rather than repels them, like negative reputation does.

## **ETHICAL EXCHANGE BEHAVIOR AS AN ELEMENT OF ETHICAL NETWORK REPUTATION**

### **Ethical behavior in business relationships and networks**

Ethical exchange behavior forms the second element of ethical reputation in B-2-B relationships. So far, it has been studied mainly in the context of dyadic relationships and, to a lesser extent, in networks. Explicit analysis of what constitutes ethical behavior in relationships and networks and its outcomes have been an overlooked area within the IMP and the Industrial Network approach.

The role of informal norms, formal codes, and code enforcement in evaluating the rightness or wrongness of organizational or industry behavior is highlighted in the Hunt and Vitell theory of ethics (1986). Ethical behavior is based on the norms arising as a result of shared values (Boyd & Webb, 2008) and in the business context, it has been defined as actions not harming others (Robin, 2009). There have been few attempts to conceptualize ethical behavior in exchange relationships; it has been characterized with such concepts as trust, equity, responsibility and commitment (Gundlach & Murphy, 1993) and trust, commitment and diligence (Murphy, Laczniak, & Wood, 2007). These qualities are further supported with such virtues as respect, honesty and transparency that are present in the social relationships among firms (Murphy et al., 2007). Furthermore, the IMP literature together with the other frameworks of relational view also provide references that relational exchange behavior is, at least to some degree, equivalent to ethical behavior. With such concepts as long-term orientation, flexibility and adaptation, information sharing, mutuality, and refrain from use of power in the relationships, these approaches describe the relationships in positive terms, emphasizing cooperation and working on common goals in harmony (Gadde, Huemer & Håkansson, 2003; Gundlach, Achrol, & Mentzer, 1995; Ivens, 2004; Macneil, 1980; Paulin & Ferguson, 2010).

Equity theory (Adams 1965; Greenberg, 1988; Cook & Messick, 1983) has brought forward a framework of parallel ideas for studying ethical exchange. While distributive justice focuses on economic fairness, social fairness is manifested through procedural and interactive justice. In spite of the differences between these approaches, e.g. in terms of unit of analysis, as the equity theory has emerged only recently in the inter-organizational studies (Luo, 2006), it is suggested that their cross-fertilization can be used to develop an understanding of what constitutes ethical exchange behavior. For example equity, which refers to fairness in economic terms, has been discussed context of relationships (Gundlach & Murphy, 1993; Johnston & Low, 2006) can be traced back to the equity theory (Cook & Messick, 1983).

Summarizing these approaches produces a two-dimensional framework that subtracts the existing concepts according to their contents, whether they be economic or social. The division, however, is not clear-cut the contents are partly overlapping as concepts with social contents can be tied to concepts of economic nature or equity formed through social interaction. Furthermore, the approaches mentioned are based on different theoretical underpinnings and therefore not fully coherent for comparison. The following Figure 2 presents this summary. The concepts are grouped in the figure according to the approaches they present but also demonstrate the links connecting them. They include both process-related features and their outcomes. It is suggested that the ethical reputation is based on ethical behavior in the network can be examined from the positive side as well as the negative, contrary to the earlier studies on opportunism.

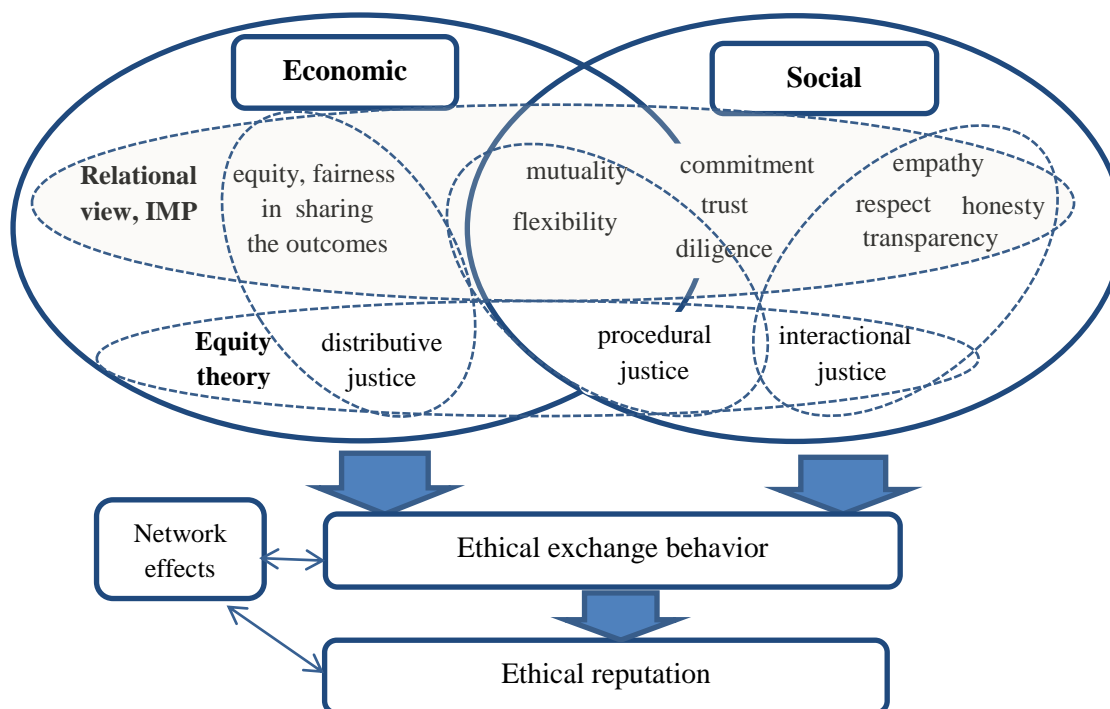


Figure 1: Ethical exchange behavior creating ethical reputation

When the examination of ethical behavior is shifted toward networks, it is suggested that the dyadic level definitions are still valid, as networks are constituted by these very same relationships. However, the heterogeneity of relationships and the network characteristics, connectedness, network positions, and asymmetries influence the way that ethical behavior is

spread within the network. Consequently they also have effect on how the network ethical reputation is created and perceived. The following implications are produced:

- 1) Due to the heterogeneity of the actors (Corsaro, Cantù & Tunisi, 2012) and the underlying norms and values in the relationships (Boyd & Webb, 2008) it is suggested that the ethical behavior in the network is most regularly not uniform between different relationships. Consequently, ethical behavior varies even across the relationships of the same actors.
- 2) The connectedness of the relationships within the network refers to the contingencies between the exchange relationships - occurrences in one relationship influence in varying degrees the other relationships (Halinen & Törnroos, 1998; Anderson, Håkansson & Johanson, 1994). Ethical behavior in the relationships can spread toward other relationships of the network through the connected relationships.
- 3) This behavior can be mediated by the positions of the network actors. The position is influenced by the resources that the company possesses and it can be a result of asymmetries that can elevate a certain network actor to a leader in the network (Turnbull, Ford & Cunningham, 1996). Power imbalance is common within networks, as most relationships are asymmetric in terms of power and dependence (Kumar, 1996). It is also likely that in a network, one actor holds several different power positions as it can be influenced by a dominant actor but also has the ability to dominate others.

### **Ethical exchange behavior forms a basis for ethical reputation – focus on business actors**

Approaching firm's ethical reputation through positive exchange behavior has been preceded by theories concerning the impact of unethical behavior on reputation. The literature on transaction cost economics in particular describes reputation as a function that controls opportunism, which is defined as drawing benefits based on self-interest with guile (Williamson, 1985; Hill, 1990). Opportunism is found in many forms: cheating, breach of contract, distorting data, purposefully confusing transactions, making false threats and promises, disguising attributes or preferences and withholding information (Hawkings, 2013; Wathne & Heide, 2000). From the viewpoint of ethical reputation, the division of opportunism into strong-form opportunism, which takes place when firms violate explicit contractual agreements and weak-form opportunism, which violates unwritten relational norms (Luo, 2006) has different consequences. Contractual breaches are more visible and have more substantial negative impact on reputation, because they often involve financial settlements (Hawkings, 2013), whereas a breach of relational norms can hurt the parties and their relationship but does not necessarily affect any third parties in terms of reputational perceptions. However, opportunism and ethical exchange behavior are not always exactly the different sides of the same coin. They can co-exist in the same relationships; one party can breach relational norms continuously, but be committed to promote fair sharing, or vice versa. Moreover, although it might seem rare, opportunism might not exist at all in certain scenarios.

Although it is a matter for future studies to entertain, exactly how much network actors and other parties actually consciously and actively pay attention to the values, norms and overall ethicality of their counterparts' actions, it has been suggested that business actors observe and

label other business organizations based on their actions. Because these actions have ethical content, they therefore develop an understanding concerning how ethically or unethically each of them behaves in terms of distributive, procedural or interactional justice. For example, according to MacMillan et al. (2005) business actors as stakeholders can give other organizations attributes based on their experience; they can be perceived as good listeners, communicators or providers of benefits. Although Money et al. (2010) do not explicitly refer to ethical reputation when modelling partnership reputation with relational concepts, the discussion in the previous section aims at establishing the linkage between ethical and relational behavior makes the connection between the two. Based on these suggestions, this study proposes that ethical reputation can be approached with concepts based on positive exchange behavior, its economic and social elements.

### **Business actors evaluating reputation, its economic and social dimensions**

Ethical reputation in terms of ethical exchange behavior can serve as a valuable source of information for business actors, particularly when no other sources are available (Nunlee, 2003). Although ethical behavior, its manifestations and its relevance for exchange relationships and networks is assumed to vary among different industries, consequently ethical reputation can be more relevant in some exchange contexts than others. Actors considering ethical exchange vital for their business should therefore screen potential new partner candidates in terms of adherence to a prescribed ethical reputation (Dadoub, 2000). The use of reputation as a source of information requires that the parties are willing to share their experiences or that the reputational information can be obtained from an external source (Fombrun & Shanley, 1990; Nunlee, 2003). Strict requirements for non-disclosure agreements in certain industries can considerably limit the freedom of the business actors involved to express any inequity they may have experienced in their relationships (Kuusela, 2013). For this reason, there are reservations concerning the perceived reputation as it does not necessarily accurately reflect the real state of the ethics in the network, misleading actors to cooperate with parties that they would otherwise avoid (Nunlee, 2003). Ethical reputation manifested in ethical exchange behavior can be particularly meaningful as a partner selection criterion in the network formation phase or in general every time a new actor is seeking to join a network.

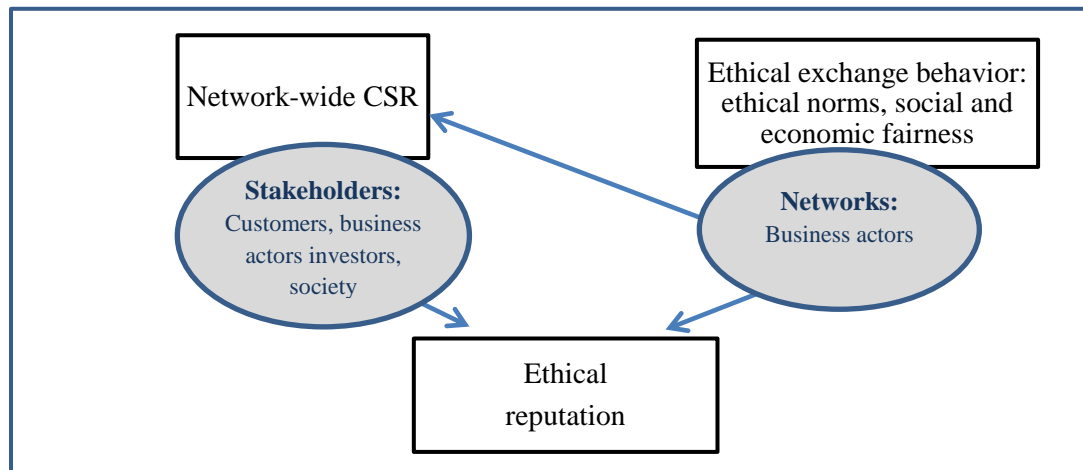
When ethical reputation is evaluated based on ethical exchange behavior, it is suggested that fairness in economic terms will be more essential than solid social relationships. This premise is based on findings of Brown et al. (2006), who examined economic and social justice and their significance in a supplier-customer relationship. Fairness in economic terms was unsurprisingly more important for the suppliers in creating satisfaction than good social relationships. Boyd & Webb (2008) suggest that with respect to ethics in business relationships, fairness in resource contribution and decision-making and implementation concerning each partner's performance receive the most attention. The perceived equity and distributive justice can fundamentally determine the attractiveness of a network or a business actor. However, due to the varying network positions and power asymmetries, the economic dimension may not carry equal importance for each actor.

Beyond the network formation phase, it has also been suggested that reputation continues making an impact on the actors after they have started the exchange (Christoph & Gaudenzi, 2009; Money, et al. 2010). Perceived fairness in terms of outcome and distribution of rewards can make the exchange partners view the relationships as beneficial and prepare them to reciprocate additional and relationship specific investments (Griffith, Harvey & Lusch, 2006). A positive reputation can facilitate decision-making concerning these investments and

increase willingness of the actors to adapt in uncertain circumstances (Heide & John, 1992). Conversely, a negative reputation can make partners hesitant for long-term commitments. Those actors that feel they are being treated unfairly may attempt to compensate the perceived imbalance by decreasing outputs, altering outcomes or withdrawing from the relationship (Duffy et al., 2013; Liu et al., 2012). Several examples can be drawn from the automotive industry, where the automakers require their supply network to get involved in joint development programs that improve processes and enhance product quality, but that simultaneously create substantial costs for the suppliers. If they are assured that the investment benefits them as well, the willingness of the supplier to join such programs increases (Christopher & Gaudenzi, 2010).

In spite of the proposed dominance of the economic dimension in ethical reputation, fairness in social terms should, by no means, receive marginal attention. Ethical reputation can provide information concerning conflicts, which can result from differences in the code of conduct (Nijhof et al., 2003). Fear of conflicts and related costs based on ethical reputation can be perceived a threat and decrease the willingness to cooperate with such actors (Drover et al. 2013). According to Money et al. (2010) positive reputation keeps on producing positive behavior and that positive reputation facilitates setting behavioral norms throughout the network. Ethical reputation can be used to evaluate the actors' likelihood to comply with rules and terms of agreement (Christopher & Gaudenzi, 2009; Nunlee, 2003). Partnerships and networks known for their fair ethical conduct in terms of social dimension can facilitate exchange by creating an atmosphere where network partners feel comfortable to cooperate (Money et al., 2010) and openly share their resources (Arend, 2009; Bennett & Gabriel, 2001). This might be a necessary precondition for such short-term project networks that are set up for completing a pre-specified task (Möller, Svahn & Rajala, 2005).

Reputational effects concern technological cooperation, which in essence, consists of sharing resources that are vulnerable for opportunistic use and cannot be fully safeguarded by the use of contracts. Similarly, parties may lack the familiarity and trust that are required to perform efficient knowledge transfer (Kotabe, Xavier & Hiroshi, 2003). Furthermore, ethical reputation has significance when any strategic sensitive information has to be shared with partners, including long-term forecasting and more proprietary information e.g. future product designs (Palay, 1984).



**Figure 2: Elements of ethical reputation**

## SUMMARY AND CONCLUSIONS

With the purpose of adding new perspectives to the emerging research of ethics in B-2-B context, this conceptual study aimed at exploring what constitutes ethical reputation of firms and networks. As summarized in Figure 2 above, this study presents the ethical reputation of networks as an outcome with two main elements: corporate social responsibility and ethical exchange behavior. The former includes consciously and deliberately managed and implemented policies and programs, targeted specifically for protecting and enhancing reputation over corporate and network life cycle. CSR is mostly a concern of individual firms and networks operating in a global context and highlighting its significance in today's business world for a great number of businesses but also for their stakeholder groups, from customers to society as a whole.

The overview on approaches of ethical behavior of business actors suggests that, in spite of their differences, they have connecting points: equity theory, as well as relational approaches emphasize economic fairness and mutuality in the processes that connect the business actors. Although ethical exchange behavior is less recognized as such, it nonetheless forms an essential reputation mechanism in B-2-B context. In the network formation phase, it can reflect network attractiveness in terms of equity or distributive justice as economic fairness is expected to overrun the social dimensions. Still, the two are interconnected, as the social dimensions impact not only working atmosphere, but conflicts and their resolution have financial consequences.

This study further suggests that after the network formation, the emphasis shifts toward the development and maintenance of CSR element in networks, thereby forming a vital reputational element. The most influential actor often takes the initiative but all the relevant network actors are involved. The process should be built on procedural justice, but with consideration to distributive justice as a basis that provides the means for taking care of the relevant social and environmental issues. A connection to the ethical exchange behavior is established, because fairness experienced in terms of sharing rewards and outcomes is one way of promoting social responsibility and ethical reputation. Developing ethical reputation is a long-term investment and should be treated as such. From a network actor's point of

view, internalizing the perception of the network as a competitive unit can contribute to the actor's willingness to take individual actions that benefit the network as a whole, especially CSR or ethical exchange behavior is concerned.

In spite of the challenges that are inherent to the study of any ethics related topic, originating from its sensitive nature and the subjective evaluation of business actors as to what defines ethical behavior, there are several topics that are relevant to the future research of business networks. Firstly, any examination should be orientated toward empirical observations on ethical reputation and the criticality of its constituents for the business actors using it to evaluate partner and network attractiveness. Future research might focus on examining empirically the roles of equity and distributive justice as reputation elements in the network context. The study on partner attractiveness should assess the relationship between the two constituents, CSR and ethical exchange behavior and their relative importance when partner selection criteria are being set. The differing network positions of the actors can be used as a starting point. Earlier research provides initial suggestions concerning how critical a good corporate reputation is in terms of CSR can be for the firms leading the network and shaping its development. Important questions to address would be how do the actors perceive ethical reputation and its elements in the network, and how does their position influence their perceptions? A study integrating the views of all relevant network actors would contribute to the understanding of ethical reputation as a mechanism, thus determining how exchange relationships are formed and maintained in a network context.

Furthermore, networks have been classified based on the rate of technological change (Möller, Svahn and Rajala, 2005). Although established and emerging networks can include actors from various industries, the division to high and low tech industries can be used to roughly characterize the difference between them. This division would form a basis for comparing the criticalness of ethical reputation across different industries and its effects within the networks of that particular industry. While hardly any industry exists where firms can afford to ignore their corporate reputation, this does not mean that they would consciously be monitoring the ethicalness of their exchange behavior. Some industries exist where ethical behavior is not the norm. However, observing the differences between ethical reputation elements at the industry level could point out industries and networks where ethical exchange behavior as a reputational element is emphasized and where its use has brought clear benefits to the network actors.

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