Corporate Reputation: Corporate Ethics and the Partner Network

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ABSTRACT
This paper seeks to view corporate ethics from a network perspective. The authors examine the extent to which ethics can constitute an organisational resource and whether operating in an ethical network can strengthen and enhance this resource.

Key words: Corporate ethics, network approach, corporate reputation

INTRODUCTION
Increasingly authors highlight the importance and relevance of ethics in business practices (e.g. Pearson, 1995; Gaumnitz and Lere, 2002; Fan, 2005; Lindfelt and Tornroos, 2006). This paper aims to explore this issue through a network dimension based on the case of a UK bank. The Co-operative Bank has a well-developed ethical policy, which has been in place since 1992 and has been revised four times on the basis of customer consultation. The Bank takes a partnership view of the network it operates in and actively assesses the ethical behaviour of other network actors when deciding the business parameters within which they are prepared to operate. It assesses its suppliers and corporate customers in terms of both their ethical and ecological actions and presents a detailed annual Sustainability Report which is a ‘warts and all’ ethical and ecological health check of its own activities. The report, which is independently audited, covers targets achieved and not achieved; the Banks ecological impact; and the amount of business declined because it is incompatible with its ethical policy. Empirical evidence from network partners, consumers and customers of the Bank indicates that there is some evidence that the ethical stance of a company can have a reciprocal influence on the ethical awareness and behaviour of other network actors. This in turn has a positive impact on the corporate reputation particularly of the focal company and to a more limited extent the other network stakeholders and there is evidence that this reputation can in fact constitute a resource for the company.

NETWORK PERSPECTIVE
The network perspective involves viewing the company as operating within a network of other companies and organisations. Consideration is given to the webs of relationships in which firms are embedded and the exchange, power and resource dependence between them (Aldrich, 1979; Aldrich & Whetton,1981; Auster 1990). The network perspective has proved particularly useful when exploring
industrial business relationships (Hakansson, 1982; Hakansson & Snehota, 1995). Indeed, Ford (1998: 268) comments that managing in industrial markets is “very much about managing relationships in a network”. The network perspective takes a longer-term view of the linkages between organisations and sees them not as one-off transactions, but as a series of episodes in a longer-term relationship.

The components of a network are the actors, activities and resources where actors are the stakeholders involved i.e. individuals, groups and organisations. The activities are the tasks they perform and the resources are the physical and intangible, financial and human assets that actors have access to, or are in control of. Activity takes place when one or more actors develop, exchange or create resources by utilising other resources (Easton and Araujo, 1996). The research conducted for this paper seeks to determine the extent to which ethics can constitute such a resource and whether the network in which the focal company operates can enhance or diminish them as a resource.

ETHICS AND CORPORATE SOCIAL RESPONSIBILITY
Interest in the notion of business ethics has grown exponentially since its inception in the 1960’s (Lindfelt and Tornroos, 2006). Developed from the ‘activist school of thought’ (Sheth et al., 1988) when the major concerns were product safety and marketing practice, business ethics are concerned with moral integrity (Pearson, 1995; Gaummitz and Lere, 2002) and moral unity (Steiner and Steiner, 1997) and focus on issues such as child labour, environmental damage, employment and economic scandals. Due to its subjectivity and complexity (Fan, 2005), there is a level of disagreement as to what constitutes business ethics, but Crane and Matten (2004: 8) offer what they suggest is an uncontroversial definition that business ethics is “the study of business situations, activities, and decisions where issues of [moral] right and wrong are addressed.” However, in attempting to clarify the meaning of business ethics, a number of symbiotic concepts have emerged including Corporate Social Responsibility (CSR) which is an umbrella term encompassing such issues as environmental concerns, public relations, corporate philanthropy, human resource management and community relations (Castka et al., 2004). Thus CSR extends the business ethics’ dialogue to encompass “the continuing commitment by business to behave ethically and contribute to the economic development
while improving the quality of life of the workforce and their families as well as of the local community and society at large” (WBCSD, 1999).

In adopting a CSR orientation, senior managers are responsible for overseeing, resourcing and formulating the company strategy and must be held responsible for monitoring its performance (Forbes and Milliken, 1999), although Berman et al. (1999) have identified two competing strategic imperatives related to its adoption: instrumental and normative. The more cynical of the two, the instrumental approach, denotes the adoption of CSR as a means of improving financial performance, whilst the normative approach provides an intrinsic stakeholder commitment to advance stakeholders’ interests. The latter disputes the view espoused by Friedman that the only ethical responsibility a business has is to make a profit within the confines of the law. It is now more commonly acknowledged that companies do have a responsibility to act ethically beyond mere legal compliance and that they owe an ethical responsibility to all of their stakeholders and have a duty to be good corporate citizens (Kelly, 2002). This perspective requires a firm to take account of all their stakeholders ranging from shareholders and employees, through customers and suppliers, to the local community and society as a whole. An increasing number of firms are including a commentary on their interactions with, and responsibilities to, such stakeholder groups in their annual report and accounts. Indeed, firms are now commonly assessed on their corporate social performance, a concept which has evolved from the concepts of CSR and corporate social responsiveness (Neville et al. 2005) and has been defined as “… a business organisation’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm’s societal relationships” (Wood, 1991: 693).

There is evidence that an increasing percentage of the UK population espouse ethical views, however there is mixed evidence as to whether consumers ethical concerns become manifest in their purchase behaviour. Cryer and Ross (1997) found a firm’s ethical behaviour to be an important consideration during the purchase decision and furthermore that consumers are willing to pay a premium for that company’s product. However, Carrigan and Attalla (2001) found that although today’s consumers are more sophisticated this did not necessarily translate into them favouring ethical companies.
Consequently, many in marketing still believe that ‘ethics does not sell’ or that such concerns are outside their responsibility (Fan 2005: 344). To its critics CSR is all about cover up and spin rather than a genuine attempt to change the way they interact with society (WARC, 2003). A specific criticism is that CSR never tells the audience what happens behind the scenes, i.e. what is really going on inside the company (Fan, 2005). That said, most studies have concluded that the relationship between ethics and financial performance is generally positive (Frooman, 1994, Griffin and Mahon, 1997; Orlitzky et al., 2003).

ETHICAL NETWORKS
Grounded in the Resource Based View of the firm theory (Barney, 1991) is the view that unique firm competencies provide strategic competitive advantage and economic return, which relate directly to the resources of the firm (Fiol, 2001; Coats & McDermott, 2002). The premise of this research is that ethics developed through and embedded within a network can form such a resource. In order to gain greater understanding of the strategic and economic importance of ethical behaviour, ethics will be assessed from a network perspective. In particular, the authors seek to develop further understanding of this issue and examine a range of questions including the following: In a world where companies operate increasingly in networks does the ethical stance of other network actors impact on their ethical reputation? Does the ethical stance of a company influence the ethical values of other network members? Is there such a thing as an ‘ethical value chain’ or ‘ethical network’ where the value of ethical behaviour is additive through the supplier chain? Does the extent to which ethics are embedded in the network affect the value of ethics as a resource? For companies espousing their ethical values how far back and to what extent is their supplier chain ethical? If other actors in a network do not operate ethically can this impact negatively on the focal company?

ETHICAL NETWORKS: A SOURCE OF CORPORATE REPUTATION
Organisations constantly seek competitive advantage, some sustainable differentiation that will enable them to stand out in a crowded marketplace. Ethics and CSR are a possible source of such differentiation. If an organisation is able to develop a clear and credible ethical reputation and ethical brand position it may deliver a differential advantage over the competition and at the same time could help overcome increasing consumer scepticism and cynicism towards such branding communications.
To achieve such a differential advantage it is imperative that a company develops a clear corporate brand, which above all else says ‘ethics’ in the consumers’ collective mind, as distinct from the competition (Ries and Trout, 1982). The primary purpose of a corporate brand is to embody the value system of the organisation and to promote and enhance the corporate reputation (Fan, 2005: 345). Thus, a corporate brand is the core component of corporate reputation (Fan, 2005: 347) with corporate reputation being affected by past performance, both financial and social (Fan, 2005: 347).

Corporate reputation and corporate brand image are believed to have a positive impact on a firm’s market share and ultimately on stock market value (Greyser 1996). However, although a brand (corporate or product) is widely regarded as the most valuable asset an organisation has, an often overlooked fact is that it is also the most vulnerable (Fan 2005). The authors suggest this vulnerability may be even greater where the corporate reputation is based on ethics since the company’s activities will be put under continual scrutiny in attempts to expose unethical behaviour. Such a reputation for its ethical stance should deliver benefits to the focal company at the very least and perhaps also to others in the network. These include a positive impact on a range of intangible assets including brand equity, which derives from factors such as brand image and corporate reputation. Brand equity, as with other intangible assets exhibits the qualities required for creating a sustainable competitive advantage (De Chernatony and MacDonald, 2003), as well as delivering other potential benefits including increased customer satisfaction and trust which has been found to be closely related to customer satisfaction (Helm, 2006). The authors posit that a corporate reputation built on ethical business practices operating within a network of other ethical actors or stakeholders has the potential to deliver a clear source of competitive differentiation which may be difficult to emulate at least in the short, if not medium term. To test this notion, we shall focus on a UK bank with a reputation for ethical policies and business practices.

THE CO-OPERATIVE BANK
The Co-operative Bank (now part of (CFS) Co-operative Financial Services) has its roots in the British co-operative movement of the 19th century, its forerunner began trading in 1872, and as such co-
operative banking has “traditionally focused on the safe keeping of communal surplus financial resources and the provision of borrowing facilities to members at advantageous rates of interest” (Reeve et al., 2004). By 2004 the Co-operative Bank had some 4.77 million customers and 4,147 employees. It is the only UK bank with a detailed and comprehensive ethical policy which clearly states who the Bank will and will not do business with. When developing this policy a critical decision was ‘whose ethics’ the Bank should adopt. It decided to follow its co-operative, democratic tradition and ask its customers as it felt the Bank’s management should not be ‘cast in the role of moral arbiter’. It felt the policy should reflect the concerns of customers and not management, as it is their money that is being invested. Accordingly, it surveyed 30,000 customers with a draft ethical policy to ascertain their views. Initially 84% of customers supported the policy, this had risen to 91% by 1994 and 97% by 2001.

The policy is reviewed regularly to ensure it reflects customer views. Each time customers are presented with a list of ethical issues for their approval. The 2001 questionnaire for the fourth review in 10 years was directed to the two million customers of both Co-operative Bank and Smile customers (its internet banking arm) who were asked to nominate ethical and environmental issues of concern. This was a full programme of consultation with customers over an 18-month period. It included discussion groups with selected customers; invited comments and discussions via their website and finally all account holders were invited to complete a detailed questionnaire. The resulting policy clearly tells customers with whom the Bank will and will not do business, although as Simon Williams, Director of Corporate Affairs, readily states the ethical policy “is not set in stone. It is important that it echoes developments in society at large.” And hence they are “committed to regularly consulting [their] customers on the details of [their] ethical stance.” Recent changes include a section on genetic modification and now the Bank will not do business with biotech companies involved in the uncontrolled release of genetically modified organisms into the environment, terminator technologies or cloning. Initial screening against the policy is done by the Procurement Department (suppliers) or the Business Centre (corporate customers) if there are queries they will be referred to the Ethical Policy Unit who can also call on external expert advice.
Currently, the Co-operative Bank is the only UK bank with a detailed and comprehensive ethical policy covering such issues as the arms trade, human rights, social involvement, animal welfare and the environment. Whilst other financial institutions offer ethical options for investment (e.g. Jupiter, Friends Provident, Norwich Union) and pensions, Friends of the Earth have suggested that unlike the Co-operative Bank, they are mainly paying lip service to an ethical viewpoint (Miles, 2002).

Attempting to position a bank to stand out clearly from the competition depends on finding an issue that the customer is interested in, clearly addressing this issue and offering services that ‘fit’ and then effectively conveying this unique position to the target market. The Co-operative Bank seeks to operate in a socially responsible/ethical manner but they do not see it as a moral crusade with no business foundation, rather they see it as an ‘essential’ part of operating as a profitable business (Sustainability Report 2004).

Since 1997 the Co-operative Bank has produced annual Sustainability Reports (termed Partnership Report 1997-2002) which are independently verified by three external specialists who provide an assessment of the Bank’s ‘delivery of value’, ‘social responsibility’ and ecological sustainability’. This report has grown in coverage and detail, and consequently length, over the years to a 102 page report by 2004, for which the Co-operative Bank has won a number of awards including the ‘world’s best’ in the United Nations Environment Programme’s biennial global benchmark of sustainability reporting 2003 and the Queen’s Award for Enterprise: Sustainable Development 2002. The report identifies targets that have not been achieved as well as presenting figures on the costs of operating ethically. The Sustainability Report is a ‘warts and all’ report, an ethical and ecological health check of its activities which addresses how the Co-operative Bank achieves the balance between the need to return a profit with the effect the business has on society and the natural world. Their core belief is that the only businesses that will survive are the ones that figure out how their interests fit into the interests of society as a whole. The Sustainability Report is unusual for many businesses in that it covers the thorny issues most businesses avoid reporting (www.cooperativebank.co.uk).
In 1999 the Co-operative Bank launched its Fair-trade Pledge campaign at the Labour Party Conference. It asked consumers to buy one fair trade product a month (Ram, 2002) and during Fair-trade Fortnight various branches undertook specific promotional activities. For example, some held coffee sessions and in 2000 all customers visiting Co-operative Bank branches were given a free bar of Divine Fair-trade chocolate in order to raise awareness of fair-trade and to establish repeat purchase behaviour. For third world producers the Fair-trade mark means fair wages, decent working conditions, good health and safety standards, fair terms of trade, guaranteed better prices and the security of long term contracts. In 1999 3% of the population said they were committed to buying Fairtrade products with 13% saying they had bought at least one product. In 1998-1999 the Fairtrade market experienced annual retail sales growth of 31%, just one year later this had increased to 51% (Ram, 2002). In addition the Co-operative Bank has been associated with a number of significant ethical initiatives. In 1995 it launched both the National Centre For Business Ecology, a low cost, high quality environmental advisory service to UK S.M.E.’s and also, in conjunction with Greenpeace the world’s first biodegradable Visa credit card.

A review of the ethical status of retail financial providers by EIRIS found ‘a growing number and increasing range of ethical policies’ (EIRIS news release, 5.7.2001) covering issues ranging from the environment, to human rights and social exclusion. However it also found what appeared to be considerable variance in the depth of these policies. British banks have a controversial history. Lloyds TSB and Midland (now HSBC) were criticised for their funding of Hawk fighters to Indonesia and Barclays was the biggest British banker in apartheid South Africa. Whilst, there is a sense that the darkest days of British banking are now over, partly because ethical issues now have a higher profile among consumers, EIRIS contends that there is still a problem over the lack of reporting on lending practices and all four major UK high street banks—Barclays, HSBC, Lloyds TSB and Royal Bank of Scotland have operations in countries with a poor record on human rights.

By 2005 the Co-operative Bank were able to report that ethics was worth more than £32 million to them, thus demonstrating the extent to which it is “doing well by doing good”. This figure represented about 34% of the Bank’s pre-tax profits of £96.5m. The costs and benefits to the Bank of its ethical
stance have been assessed via a value analysis. This showed the annual cost of the Bank turning away business on ethical and ecological grounds (£10m), the costs associated with undertaking various ecological initiatives (£1m) and the resources invested in the community (Sustainability Report, 2004). Set against this is the value of the Bank’s brand reputation, 31% of personal account customers say that the Bank’s ethical and ecological policies are the most important reason for them opening and maintaining an account. In addition, the Bank generated annualised cost savings of over £3.5m from improved eco-productivity processes (e.g. reduced paper usage) confirming Mervyn Pedelty’s (C.E.O. Co-operative Bank) view that “sustainable success is best achieved by those organisations willing to take the broadest view of their responsibilities” (Partnership Report 2001: 2).

Thus, it is its ethical and ecological stance that differentiates the Co-operative Bank most clearly from the competition and the launch of the policy has been opportune as views on the social and ecological impact of business are changing, with consumers becoming more concerned as to whether companies are acting in a socially responsible manner and reflecting this in their purchase behaviour. As previously stated, customer support for the Co-operative Bank’s policy has increased, although specific ethical concerns have shifted over the past decade with people now feeling less strongly about animal welfare, but more so about fair trade, global climate change and genetic modification. However, arms manufacturers and companies that do business with oppressive regimes have always elicited the strongest response. The Co-operative Bank’s ethical policy affects its own business practices, its supplier selection and who it accepts as customers. The Co-operative Bank says that it “recognises the need to develop its business in a sustainable manner” by which it means business development that meets the needs of the present without compromising the ability of future generations to meet their own needs (CFS, Sustainability Report, 2004). In order to achieve this the Co-operative Bank has developed what it terms a ‘Partnership Approach’ where it has identified six classes of partner or actor upon whom its continued success is dependent (see Figure 1).

The research conducted for this paper seeks to determine the extent to which ethics can constitute such a resource and whether the network in which the focal company operates can enhance or diminish them as a resource. To examine this, we shall focus on the Co-operative Bank and a sample from its
constituent network of suppliers, consumers and customers to ascertain their views on the reputation and corporate brand of the focal company and to discover whether their involvement with this company has impacted positively or negatively on their ethical awareness and policies.

**Figure 1: The Co-operative Bank and its Network Partners**

![Network Partners Diagram]

**RESEARCH METHODS**

In order to investigate corporate ethics from the perspective of an organisation’s network of actors or stakeholders data was collected from a number of actors in this network. The first stage was an in-depth interview with a key informant involved in establishing and operating the Co-operative Bank’s ethical policy. This interview lasted one hour and forty minutes and was tape-recorded for later transcription. Although the interview was conducted using an interview protocol, the respondent was allowed to expand, illustrate and digress. That is, the respondent was allowed to cover in his own words the areas he thought critical and important (Kvale, 1983). The second stage of data collection comprised questionnaires to a sample of Co-operative Bank’s suppliers. The questionnaire was designed in two sections. The first section focused on the impact of their association with Co-operative on their own corporate reputation. The second section investigated the impact of the supplier of operating in an ethical network, in particular changes in their level of ethical awareness and adoption of formal policies in ethical issues on their own business practices including their own supplier screening. The questionnaires were then distributed by post to 119 of the Co-operative Banks suppliers. Forty-six completed questionnaires were returned, a response rate of 39%.
A further questionnaire was designed to gather data from consumers. These were broken down into the categories of Co-operative Bank customers and consumers (general public) who were aware of the Bank but were not customers. The survey instrument consisted of two main sections one relevant to customers only and the other relevant to all consumers. The first covered ethics: the ethical reputation of the Co-operative Bank and its stakeholders and the impact on customers’ own ethical awareness; the second gathered data on loyalty, in particular affective and behavioural, which has been found to be closely related to reputation. The majority of questions were closed and pre-coded although some open questions were included to gain greater insights into important areas. The questionnaires were administered on a face-to-face basis using convenience and random sampling in two UK towns. Data from all of these sources was then triangulated with documentary sources both internal and external to the Co-operative Bank. Two hundred and eighty completed questionnaires were returned of which eighty-six (31%) were from current Co-operative Bank customers.

**FINDINGS AND DISCUSSION**
The data gathered via the various research methods are now presented in two sections covering corporate reputation and the impact of operating in an ethical network. All quotations are from the interview with the Ethical Policy Manager at the Co-operative Bank, interspersed with linking statements and supporting evidence from the supplier and customer/consumer questionnaires.

1. **Corporate Reputation**

Corporate reputation is cited as a major inducement to significant proportion of new customers,

“I guess 30% of the current account customers cite the ethical policy as the main reason for opening a bank account with us”

He considered the reputation of the Bank to be highly influential

“in the sense that the Bank is used as a case study of socially responsible business. It’s leading edge basically. this report [Sustainability Report] is world class and is cited all over the place”.

In that way,

“the Bank is trusted and the Bank is influential. Opinion formers will look to this [indicated Sustainability Report] and it carries weight, it carries influence in the sense that being a partnership like this is why it’s a sustainable report.”

This is supported by 93% of the suppliers surveyed who reported that their association with the Co-operative Bank reflected positively or very positively on their own reputation. In terms of customer perception of reputation (see table 1) 72% of customers surveyed considered ethics to be a key reputational factor for the Bank. However, as though echoing Fan’s (2005) comments that the corporate brand may be the most valuable asset an organisation has, it may also be the most
vulnerable, the Co-operative Bank take steps to protect their hard won reputation. As the Ethical Policy Manager commented

“There’s also, this idea of credibility and scrutiny, the more you stick your head over the parapet the more people look to shoot it off; there’s a sense that there’s reputational risk as well. So the business manager might go out there and say I’ve got a business doing this that and the other and I’m a bit uncomfortable, it jars a little bit. So it might not be a pure ethical policy issue it might be a reputational concern saying where would we sit with this type of sector, this type of issue. So what happens is that would be referred through to us [Ethical Policy Unit]. So once there’s that initial screen gone through it will come through to the ethical policy unit again this is the issue of the screening process that we go through is, we rely on an external resource which is EIRIS, the ethical investment research service. They are an independent ethical researcher. They have a huge database on companies, basically listed plc’s. So they can pull off fact sheets and get reports for us very quickly”.

This was reflected in the customer questionnaire where 86% of respondents believed it that is important that the Co-operative Bank deals only with ethical suppliers and business partners.

However this contrasts with consumer respondents where the corresponding figure was 53%. In terms of reputational risk, 97% of customers considered that doing business with companies whose ethics have been questioned or criticised would reflect negatively on the Co-operative Bank’s reputation.

Table 1: Customer perception of reputational factors (n= 86)

<table>
<thead>
<tr>
<th></th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
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<tbody>
<tr>
<td>Competitive pricing</td>
<td>8</td>
<td>78</td>
<td>14</td>
</tr>
<tr>
<td>Quality product range</td>
<td>4</td>
<td>71</td>
<td>25</td>
</tr>
<tr>
<td>Responsive to customer needs</td>
<td>16</td>
<td>72</td>
<td>12</td>
</tr>
<tr>
<td>Keeping their word</td>
<td>9</td>
<td>26</td>
<td>65</td>
</tr>
<tr>
<td>Sense of tradition</td>
<td>8</td>
<td>33</td>
<td>59</td>
</tr>
<tr>
<td>Ethical business practices</td>
<td>0</td>
<td>28</td>
<td>72</td>
</tr>
<tr>
<td>‘Green’ / ecological business practices</td>
<td>0</td>
<td>43</td>
<td>57</td>
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</table>

There was also evidence that the Co-operative Bank consider their ethical reputation to be a source of competitive advantage and they will refuse business in order to retain its credibility.

“this is the beauty I think of the ethical policy in a sense it cannot be replicated. The crux of what we do is we turn business down. We will say no to businesses, profitable, juicy businesses, we will say no. We will turn down existing business; we will turn down new business. That I think is what they cannot replicate. Were one of the big four to turn around and say we’re going to kick company x of our books!!”

There is also evidence that Co-operative Bank take a normative approach (Berman et al. 1999) with their ethical strategy

“Right we’ll have a look at the renewables sector’ and we’ll look to get some of this business on board because it fits our ethical policy and it’s a business development tool. In that sense it’s a business tool. It’s not just a nice little fuzzy thing that sits above the business”.

2. Impact of Operating in an Ethical Network

When asked whether in-suppliers were influenced by the Bank to become more ethical, more ecological, the Ethical Policy Manager responded
“The issue of suppliers is slightly more difficult in that you have got a relationship there and you have more points of contact which brings with it more points of influence, and there’s sort of a more reciprocal relationship. We look to suppliers a bit broader in that ethical policy screening is a part of a supplier relationship in that the sort of corporate reputational profile of a supplier is important. That sits at one level, but what is also important is the actual products and services that we are sourcing. And again that’s something we can have control over we can stipulate paper, we can stipulate this is the paper we want, we can stipulate this is the type of car we want. So again that is a sense where we can engage with a supplier and we can interrogate suppliers and we can push for change or influence”.

In some instances the Bank will search for further evidence of the supplier’s ethical stance
“It might come back that the business manager will say ‘Oh you know there’s an issue here I’m conscious that this is of potential impact’. And again there’s a sense that there’s the ethical policy in its purest sense which is issue a, b, c, d”.
“there’s a questionnaire which is part of account opening. So the business people [in co-operative bank business centre] will say ‘ah so he’s involved in that’ most of the time it will be very straightforward, it will be an ordinary company doing very ordinary stuff and we [the ethical policy unit] will not need to be involved.”
“Again another example would be a fossil fuel company looking to develop its renewables. Now we have a position to support renewables, we have a position which excludes fossil fuel companies, but on a case-by-case basis we’d look at this and what could the Bank do”.

However, not all decisions are clear-cut
“You might have for instance a very dirty company but which is looking for finance to improve its performance. So this is the issue where debate begins. We have a waste company which might fall short of our definition of ecological sustainability, you know incineration and landfill, but they’ve got a project which they want finance for which is going to reduce their reliance. So this is where you get into the subtleties of the policy and where there’s a sense of do we encourage progress to change, do we support such moves”.

And the Bank may use their influence to change a customers approach to business
“Another example that springs to mind where there was engagement, an ethical dilemma question. It was a school furniture manufacturer. All very worthy but he made his laboratory tables, which need to be much stronger than desks, the laboratory tables were made out of teak I think it was, or mahogany. So again we said this falls short of our position on sustainable forestry. So again he moved his manufacturing of laboratory tables away from unsustainable tropical hardwoods”.

Supporting these comments 74% of supplier respondents reported that their awareness of ethical or ecological issues had increased since they became a supplier of the Co-operative Bank. Furthermore, 50% of suppliers have a formal policy on the ecological impact of their company’s products/services and 70% have a formal policy on recycling. However, only 24% had a formal policy on use of non-renewable energy supplies and similarly only 26% screen their customers on ethical grounds with 74% either not doing so or being unaware of such a policy. For those who do screen their suppliers the following factors were significant to a greater or lesser degree as specified in Table 2.

In terms of assessing the impact of the bank’s CSR further up its supply chain, Table 2 shows that ethical reputation and trust (keeping their word) are of a similar level of importance for Co-operative Bank suppliers when they are in turn selecting suppliers for their companies as compared with other more traditional factors such as price and credit terms. However, it must also be noted that whatever a company’s CSR stance fundamental factors which affect a
businesses survival such as value for money, quality of product or service and on-time delivery are still considered the most important criteria.

Table 2: Importance of factors considered by suppliers when in turn selecting a supplier

<table>
<thead>
<tr>
<th>Reputational influence factor</th>
<th>% rating the factor ...</th>
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<tbody>
<tr>
<td></td>
<td>... important / very important</td>
</tr>
<tr>
<td>Price</td>
<td>91</td>
</tr>
<tr>
<td>Value for money</td>
<td>100</td>
</tr>
<tr>
<td>Ethical reputation</td>
<td>91</td>
</tr>
<tr>
<td>On time delivery</td>
<td>100</td>
</tr>
<tr>
<td>Quality of product</td>
<td>98</td>
</tr>
<tr>
<td>Warranty</td>
<td>76</td>
</tr>
<tr>
<td>Credit terms</td>
<td>33</td>
</tr>
<tr>
<td>Ecological impact of product</td>
<td>74</td>
</tr>
<tr>
<td>Keeping their word</td>
<td>98</td>
</tr>
<tr>
<td>Responsive to needs</td>
<td>98</td>
</tr>
</tbody>
</table>

This paper reports the findings to date of a larger research project into ethical networks and as such has limitations and areas for further research. Of the Co-operative Banks six network partners, data has been collected from suppliers, consumers (representing society) and customers, plus one key informant (representing The Co-operative Bank). Shareholder opinion has not been sought since although The Co-operative Bank is a public limited company it has only one equity shareholder, the Co-operative Wholesale Group (CWS) Ltd, an organisation who is itself part of the cooperative movement. The authors acknowledge that the research finding presented here do not fully address all the questions posited earlier and in further attempting to assess the additive effect of ethics in a network the next stages of the project are firstly to collect data from employees both about the Co-operative Bank and its ethical stance and whether this has translated into changed purchasing behaviour outside the bank. Secondly, to conduct a follow-up telephone survey of suppliers in order to assess the additive effect of ethics in a network by gaining more in-depth, richer data than elicited in the postal questionnaire.

**CONCLUSION**
The aim of this paper was to examine corporate ethics from a network perspective, in particular, the impact of ethical business practices on corporate reputation and the impact of operating in an ethical network. The former raised questions including; in a world where companies operate increasingly in networks does the ethical stance of other network actors’ impact on the focal company’s ethical
reputation? Is there such a thing as an ‘ethical network’ where the value of ethical behaviour is additive through the supplier chain? If other actors in a network do not operate ethically can this impact negatively on the focal company? These latter two questions are answered to large extent by the overwhelming findings that 86% of customers believed it important that the Bank only deals with ethical partners and perhaps more tellingly from a reputational risk perspective 97% considered it could harm the Banks reputation if it were found to do business with ‘unethical’ companies. There was also evidence that the Co-operative Bank consider their ethical reputation to be a winning competitive advantage and they will refuse business in order to protect its credibility.

In terms of the impact of operating in an ethical network questions raised included; does the ethical stance of a company influence the ethical values of other network members? Does the extent to which ethics are embedded in the network affect the value of ethics as a resource? For companies espousing their ethical values how far back and to what extent is their supplier chain ethical? From the in-depth interview, the suppliers’ questionnaires, the Partnership and Sustainability Reports and internal documents (e.g. Individual Environmental Questionnaires for suppliers) there is clear evidence that the Co-operative Bank have a very formal and well developed policy for vetting prospective and existing network partners, and that they are prepared to, and have, declined business even with existing partners if their ethical policy was compromised. The examples cited by the Ethical Policy Manager indicate clearly that the ethical stance of a company can in fact influence the ethical behaviour at least, and perhaps values, of other network members. However, further research is required to establish the extent to which these values are in fact embedded within the network members’ policies or they are merely complying in order to get the Co-operative Banks business (in the case of suppliers).

Finally, although some evidence of the existence, or perhaps development, of an ethical network was found in order to assess its full impact and whether it can truly deliver the benefits the authors posited, further research into both the Co-operative Bank and its network and other organisations taking an ethical stance is required.
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