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An Integrated Model of Ethical Capital and Relational Wealth of the Firm

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AN INTEGRATED MODEL OF ETHICAL CAPITAL AND RELATIONAL WEALTH OF THE FIRM

by

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ABSTRACT: Key sources of competitive advantage for a firm include its various forms of relational wealth. These intangible relational assets exist because of a firm's relationship with a given stakeholder. We argue that stakeholder perceptions of the morality of a firm can have substantive positive or negative effects on that firm's relational wealth. Previous research has suggested links between perceptions of the morality of a firm held by stakeholders such as employees, strategic alliance partners, customers, and communities and the relevant relational wealth held by the firm in relation to those stakeholders. However, a comprehensive model and composite measure of these ethical perceptions and their relationship with relational wealth does not exist in the academic literature. The lack of such a model and measure impedes academic research on the link between ethics and competitive advantage and also limits the extent to which these important antecedents of relational wealth are considered in firm valuation and investment decision making. Ethical capital is the collection of stakeholder perceptions relating to a firm's underlying moral character which can be converted into relational wealth. We propose an integrative, general model of ethical capital of the firm in which positive stakeholder perceptions of the moral character of a firm lead to high value behaviors while negative perceptions lead to value reducing behaviors. We differentiate our conceptualization from existing constructs, namely reputation capital and social capital. We describe ethical capital with employees, strategic alliance partners, consumers, and communities. We then conclude by outlining a plan for operationalization of ethical capital across stakeholders in light of our model.

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I express my love and gratitude to my parents, who raised me and provided for all my needs, without which raising none of my academic work could ever be undertaken. The way I see it, my graduation is as much theirs as it is mine.

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In the "interim struggle" (Weick, 1995) to understand how a firm's intangible resources influence firm performance and valuation, many scholars have argued that perceptions held by stakeholders matter a great deal. As firms and stakeholders interact with one another, unwritten expectations and subjective, implicit conceptualizations of what constitutes proper behavior, fairness, justice, etc. in the relationship develop (Rousseau, 1989). It's intuitive that stakeholders prefer firms to interact with them in ways that they (i.e. the stakeholders) find acceptable. An important theoretical and empirical question is whether or not catering to these moral preferences will provide firms with competitive advantages.

We note a pattern across separate literatures consistently suggesting that perceptions of the morality of a firm held by stakeholders affect the firm's relational wealth (Business Ethics Quarterly, 2002). Theoretical and empirical work has suggested links between ethics based perceptions of firms held by employees and forms of relational wealth related to employees such as organizational commitment (Cullen & Victor, 1993; Caldwell & Hansen, 2010) and value producing employee behaviors (e.g. extra-role behavior; see Caldwell & Hansen, 2010; Raile, 2012). Strategy scholars have consistently argued and found empirical evidence that perceptions of trustworthiness within strategic alliances are associated with competitive advantage (Dyer & Singh, 1998; Barney & Hansen, 1994). Research at the intersection between marketing and business ethics has also demonstrated a link between consumers' perceptions of an ethical brand and the equity of that brand (Iglesias et al., 2019; Sierra et al., 2017). In addition, sociologists have studied organizational legitimacy, including moral legitimacy (Suchman, 1995), within communities. Such legitimacy depends on perceptions of the firm’s “essence” (i.e. its character and structure) as well as moral evaluations of its actions and constitutes a form of relational wealth valuable to the firm.

Organizational trust scholars have argued that a primary antecedent of trust is perceived integrity of the trustee, that is, the extent to which the trustor believes a “trustee adheres to a set of principles that the trustor finds acceptable” (Mayer et al., 1995: 719). Those standards which a stakeholder uses to judge the acceptability or appropriateness (Suchman, 1995) of the principles manifested by a firm is derived from a moral psychological contract (Rousseau, 1989) of expectations held by the stakeholder in relation to the firm. Acknowledging this fact, other theoretical work on stakeholder perceptions of the firm and its actions has argued that firm behavior is evaluated subjectively by stakeholders through their own idiosyncratic set of values or “mediating lens” (Godfrey, 2005; Caldwell & Hansen, 2010).

When stakeholders receive signals of a firm’s integrity, such as indirect exposure to the firm’s reputation (Fombrun, 1995) or direct experience of its behavior, they evaluate these signals through their mediating lens of values. When evaluated positively, these signals and evaluations translate into stronger perceptions that the firm has and will adhere to moral principles that are acceptable, in other words, stronger perceptions of the integrity factor of trustworthiness as defined in Mayer et al. (1995). These perceptions of trustworthiness increase the trust a stakeholder has in the firm. Conversely, negatively evaluated signals will weaken perceptions of integrity and decrease stakeholder trust in the firm. Similar to what Barney and Hansen (1994) call strong-form trust, a trustor gains an assurance that the trustee won’t act inconsistent with these principles because it would be very personally, rather than simply economically, costly to do so. When stakeholders perceive a firm and its actions in this way, it leads to behaviors that are valuable to the firm (Caldwell & Hansen, 2010), and increases or insures (Godfrey, 2005) relational wealth against damage if an ethical failure should occur.

We believe that any attempt to understand competitive advantage and the value of a firm requires consideration of how the firm is perceived by stakeholders and the effect of these perceptions have on relational wealth. As already mentioned, there has been much exemplary scholarship done on this topic. However, this work has not been synthesized into a general model across different stakeholders, nor has a composite measure of these perceptions across stakeholders been developed and the relationship between these perceptions and relational wealth more fully explicated. Both academic research in this area and practitioner activities such as firm valuation and investment decision making are impeded by the lack of such a model and measure. We propose a model in which stakeholder perceptions of the integrity factor of trustworthiness (Mayer et al., 1995) are a valuable relational asset that operates as a form of capital which can be accumulated and converted to increase or preserve relational wealth. We name these stakeholder perceptions of the underlying moral character (Godfrey, 2005) of a firm which are converted (Bourdieu, 1985) into relational wealth *ethical capital*. The conversion of these perceptions into relational wealth occurs in two main ways: generating insurance for other forms of relational wealth (Godfrey, 2005) or resulting in high-value stakeholder behaviors (Caldwell & Hansen, 2010) which represents an increase in relational wealth.

This paper has two purposes. First, to synthesize extant research on stakeholder perceptions of firm trustworthiness and moral acceptability and the relationship these perceptions have with relational wealth into a general model of ethical capital. Second, to outline a strategy for operationalizing ethical capital as we have defined it. To accomplish these goals we first review the theoretical underpinnings of and necessity for such a model. We then present the model and consider ethical capital with four main groups of stakeholders: *employees, strategic alliance partners, customers, and communities.* We differentiate ethical capital from similar constructs, and show how our integrative model enables operationalization of ethical capital across these different stakeholders.

Theoretical Background

Stakeholder Perceptions of Firm Trustworthiness

Many of the sources of competitive advantage a firm can have exist within relationships between the firm and other agents (Dyer & Singh, 1998). Although relationships grant access to additional resources and opportunities, there is also an element of relational risk (Das & Deng, 2001) and threats of opportunism inherent in relationships. For this reason, it is in a stakeholder's interest to receive signals (i.e. collect information) from firms because this will help it know what the firm is like and increase predictability in the relationship (Das & Teng, 1998). Informal safeguards like trust and reputation are substitutes for costly governance mechanisms (Dyer & Singh, 1998), meaning that stakeholders are likely to prefer firms they trust and which have good reputations.

A key component in understanding relationships between firms and stakeholders therefore is trust. It has even been observed that "virtually every commercial transaction has within itself an element of trust" (Arrow, 1972: 357). Trust is an extremely important construct, but defining it has been a matter of debate in the literature. Trust has been described variously as a belief, attitude, behavior, etc. (Caldwell & Hansen, 2010). Trust is developed in light of both the past and present and is also related to expectations of the future (Heide & Miner, 1992). For purposes of this paper, we take the perspective that trust is a psychological state (Mayer et al., 1995; ref) which necessarily also translates into corresponding trusting behaviors or decisions (Currall & Inkpen, 2003; McEvily et al, 2003; Caldwell & Hansen, 2010) which differ from behavior absent trust because of a willingness to be vulnerable and to take risks (Mayer et al., 1995; ref). In this way, trust in our view is neither only a psychological state or only a decision, but a combination of the two (Zhong et al, 2017).

Importantly, trustworthiness is a characteristic of a trustee while trust is the psychological state and behavior of a trustor in relation to the trustee (Dyer & Singh, 1998; ref). So, we say that a firm is trustworthy when its character and behavior warrant trust and a stakeholder trusts a firm when it perceives that firm as trustworthy. Accordingly, in their model of organizational trust, Mayer et al. (1995) argue that there are three factors of trustworthiness and a trustee's perception of each are antecedents of trust. These factors include ability, benevolence, and integrity. Ability "is that group of skills, competencies, and characteristics that enable a party to have influence within some specific domain." The benevolence factor refers to a trustor's belief that the trustee wants to do good to them. The integrity factor, as shared earlier, is based on the trustor's perception that the trustee has and adheres to principles which are acceptable. The acceptability of the principles in the eyes of a trustor is essential (McFall, 1987; Godfrey, 2005) and will be addressed in greater detail later in the paper when we discuss moral psychological contracts. The factor of trustworthiness at play in ethical capital theory and which we employ heavily in the construction of our model is the integrity factor. Simply put, ethical capital is the collection of stakeholder perceptions of the firm's integrity factor of trustworthiness which are converted into relational wealth.

Assets and Goodwill

Organizations have been described as bounded collectives created to achieve some goal (Aldrich, 2011). Goals of organizations include anything from maximizing profits to relieving poverty. Regardless of the particular goals of a given organization, these goals are pursued using the resources available to the organization. An organization's resources are called assets, which are defined by accounting standards to be any "present economic resource controlled by the entity as a result of past events" where an economic resource is "a right that has the potential to produce economic benefits" (IFRS, Conceptual Framework). Assets can be either tangible or intangible. Tangible assets have physical substance, i.e. they can be seen and touched. Examples of tangible assets include machines, buildings, land, and inventory. Intangible assets lack physical corporality but nevertheless are resources available to the organization for accomplishing its goals. For example, patents, trademarks, trust, and reputation are all intangible assets. Ethical capital is unambiguously an intangible rather than tangible relational asset.

Assets can also be categorized as either identifiable or non-identifiable. Identifiable assets are those which can be separated from other assets within the firm, assigned a market value, and sold away (IFRS, IAS 38). Examples include vehicles and equipment. Non-identifiable assets on the other hand can't be separated and transferred from the firm. For example, it is impossible for a firm to extract its culture and sell or rent it, so company culture is a non-identifiable asset. Perceptions of a firm's trustworthiness are clearly relationship specific and can't be extracted from the firm and then sold on the marketplace. For this reason, we must conclude that, in addition to being intangible, ethical capital is a non-identifiable asset.

When organizations are purchased, the price paid can exceed the value of all the assets and liabilities housed within the purchased firm. The amount of additional money paid in such cases is called goodwill. In more technical terms, when one organization acquires another, whatever portion of the purchase price that can't be attributed to the firm's identifiable assets and liabilities is reported as goodwill (IFRS, IAS 3). Accounting goodwill, then, is the collection of intangible, non-identifiable assets acquired when an organization is purchased by another. By this definition, since ethical capital is a category within the stock of intangible, non-identifiable assets held by a firm, it must be a component of goodwill.

Why Call it Ethical Capital?

Ethics as a field is the philosophical study of right and wrong conduct. An ethicist is concerned with foundational questions of human nature and interaction between agents. Normative or prescriptive ethics studies and makes arguments about how agents *should* interact with each other while behavioral or descriptive ethics studies how agents *actually do* interact with each other. Attaching the label "ethical" or "moral" to a construct, then, suggests it involves conduct of agents in relation to one or more other agents and possibly includes reference to a normative standard of "right" conduct. We include the “ethical” label on our construct because it exists exclusively in firm-stakeholder relationships, is influenced by the conduct of the firm, and has the stakeholder’s moral expectations as a reference point of proper conduct. The firm is perceived positively as a moral agent when it meets or exceeds a stakeholder’s ethical expectations. Because ethical capital hinges on perceptions of the firm acting on desirable moral principles, we believe calling it “ethical” capital is justified.

Ethical capital is a type of capital because it is an asset which enhances the firm’s ability to accomplish work, it can be produced or invested in, and is “convertible” (Bourdieu, 1985) into other forms of resources, like relational wealth. In their review of social capital, Alder & Kwon (2002) defended using capital as a label by showing that social capital shared specific characteristics common to other forms of capital. These characteristics include: (1) being a long-lived asset that can be invested in and which you can expect a future flow of benefits; (2) it is "appropriable" (Coleman, 1988) and "convertible" (Bourdieu, 1985); (3) it can be a substitute or complement to other resources; (4) it requires maintenance like some other capital constructs (e.g. physical capital) do.

We follow a similar argument, maintaining that ethical capital should be seen as a form of capital. Ethical capital is a long-term asset that won’t go away if it’s maintained and it can be invested in. Investment includes meeting expectations, continued interactions, marketing, philanthropy (Godfrey, 2005), etc. Any use of firm resources that strengthens perceptions of the firm having and adhering to moral principles that stakeholders approve of is an example of ethical capital investment. Ethical capital can be both a substitute or compliment. It is a substitute of formal safeguards, being an informal safeguard (Dyer & Singh, 1997; Barney & Hansen, 1994). It complements other resources because it makes them more valuable (e.g. acts as insurance for relational assets; see Godfrey, 2005). Ethical capital must be maintained. Acting in a way that signals a lack of trustworthiness will get rid of it and not maintaining perceptions by continuing to meet expectations may cause it to erode over time. A firm can't just get ethical capital and then allow the relationship to deteriorate because the perception-based equity would also disappear (Burt, 1992). Unlike some other forms of capital like machines and land, ethical capital doesn't depreciate when it is used to generate or protect relational wealth.

After saying how social capital was similar to other forms of capital, Adler & Kwon (2002) went on to argue that social capital is unlike all other forms of capital in being "located" not in the actors but in their relations with other actors. "No one player has exclusive ownership rights to social capital. If you or your partner in a relationship withdraws, the connection dissolves with whatever social capital it contained" (Burt, 1992: 58). In like manner, ethical capital is not the property of a firm, but rather exists in the firm-stakeholder relationship. Once again, this is why we argue that ethical capital is a non-identifiable asset and is contained within goodwill.

The Idea of an Ethics Based Asset

We are far from the first authors to suggest that ethics and stakeholder perceptions of morality are associated with economic advantages. A very robust and ongoing conversation in the Academy is trying to understand the relationship between corporate social responsibility and corporate financial performance.

We find previous work on the concept of ethical or moral capital particularly noteworthy and relevant to our paper. Some scholars have called ethical capital the extent to which a group's moral rules decrease transaction costs and facilitate economic interactions within the group as well as outside the group (Ratnapala, 2003). The existence of and adherence to moral rules within a group or relationship leads to economic advantages. Raile (2013: 253) used the term ethical capital when arguing that "perceptions of a positive ethical climate create an intangible reservoir that facilitates a variety of productive interactions and outcomes." The specific stakeholders in this study were employees of government organizations whose perceptions of organizational ethical climate are argued to lead to ethical capital accrual.

A thorough treatment of an ethical capital construct is found in Wagner-Tsukamoto (2005; 2007) which defined ethical capital as a "'price' a morally minded consumer, employee, investor or other agent puts on active moral agency." In other words, ethical capital is identified by the premium that a stakeholder places on a firm actively operating in a moral way. He argued that ethical capital is created when firms address demand from stakeholders for intentional moral agency above what is required by law. Active moral agency is defined in this argument as intentional behavior that goes above "moral minimum standards" (i.e. the law). For example, consumers concerned about the environmental impact of products may be willing to pay a premium for goods that are verifiably eco-friendly beyond what is required by the law and a firm may in turn be willing to provide such products in exchange for those premiums. Demand from stakeholders for moral agency provides the firm with the opportunity to create ethical capital and trade it with these stakeholders.

Foundational to our own ethical capital model, Godfrey (2005) describes "moral capital" as positive reputational capital generated when corporate philanthropy. The specific example used was corporate philanthropy. Godfrey conceptualizes moral capital as a perception-based construct that increases when stakeholders evaluate corporate actions as being authentic and being in harmony with their own values. Moral capital is explained as a particular form of reputational capital that arises from corporate philanthropy and is linked to shareholder wealth. Moral capital is further described as a signal to outsiders of an organization's "underlying moral character" that becomes a form of insurance for relationship-based intangible assets (Godfrey, 2005). Hence, moral capital in this paradigm is characterized by stakeholder perceptions of the firm and its actions and involves evaluating actions as both authentic and corresponding with their own values. It's important to notice the relation between Godfrey (2005)'s model of stakeholder moral evaluation of firm character and behavior and the criterion for the integrity factor of trustworthiness (Mayer et al., 1995) of perceiving that a firm adheres to principles the stakeholder finds acceptable.

Although extant literature has discussed ethical capital, we as an academic community have failed to operationalize a widely useful definition of it and begin measuring it in a wide variety of stakeholder relationships and contexts. To this point, scholars studying ethical capital have not proposed a definition that can be operationalized across general rather than specific cases of firm behavior. Both academic scholarship and practitioner work (e.g. ethical investing, firm valuation) are hindered by this gap. Part of our objective in presenting a general model of ethical capital is to address this need by proposing a construct that lends itself to operationalization and use in empirically studying perceptions of ethics and relational wealth between organizations and stakeholders. We draw on psychological contract theory (Rousseau, 1993) in making our model to facilitate accomplishing that goal.

Moral Psychological Contracts and Signals of Firm Character

Stakeholders have a certain propensity to trust (Mayer et al., 1995). If a trustor's characteristics were the only determinant of trust levels, then any given stakeholder would trust all firms equally. However, it's clearly the case that one trustor can vary in how much it trusts different trustees. A single trustor can hold different levels of trust across trustees because trustees differ in perceived characteristics (Mayer et al., 1995). Trustors form perceptions of the trustworthiness of trustees by receiving and interpreting signals of firm characteristics.

Signaling theory studies how agents attempt to share information with principals in a credible way. The sender (agent) sends a signal of some sort to convince the receiver (principle) that the agent has some quality. Spence (1973) introduced the concept by proposing a model where individuals use educational credentials as a signal to potential employers. Employers make investment decisions under conditions of uncertainty because they must hire candidates without knowing all their attributes. Educational credentials are a costly but potentially valuable signal candidates can send to credibly demonstrate desirable attributes to employers, such as productivity, intelligence, skill, etc.

Since this introduction describing job market signals, signaling theory has been used to study a wide range of interactions where agents convey information about characteristics to principals, including how firms signal their attributes to stakeholders. Firms of course have an incentive to be evaluated positively by stakeholders. For example, financial statements are used by firms to credibly signal attributes about assets, liabilities, and financial health to the public. It’s also valuable to firms to be perceived by stakeholders as trustworthy. We will argue below that firms can signal their trustworthiness to stakeholders by meeting or exceeding moral psychological contract expectations. Meeting moral expectations is a signal of trustworthiness and when received and perceived as credible, signals of this sort will increase a stakeholder’s confidence in the firm as a moral agent.

Trustors use perceived characteristics and observed behaviors of trustees to make inferences about their trustworthiness (Mayer, Davis, & Schoorman, 1995). We argue that stakeholders receive useful information about firm characteristics and behavior through signals, that they form moral evaluations of these signals pertaining to the firm, and that they make these evaluations through a mediating lens (Caldwell & Hansen, 2010). We acknowledge that the salience and characteristics of stakeholders as perceived by CEO’s and managers, who generally make up the decision-making body of a firm, are influenced by the values of those leaders (Mitchell, Agle, & Wood, 1997). Likewise, the legitimacy of an organization (Suchman, 1995), the attention that should be given to its actions, and the evaluation of its actions are rooted in stakeholder perceptions which operate according to their values (Godfrey, 2005).

Within our model, we conceptualize the mediating lens as a collection of values and unwritten expectations used as a reference when evaluating firms. The psychological contract of a relationship is the collection of obligations perceived as implicit to the relationship (Rousseau, 1995; Rousseau, 1990). In other words, a stakeholder's psychological contract would be that stakeholder's unwritten expectations and perceived obligations of the firm in the relationship. Importantly, each stakeholder develops its own idiosyncratic understanding of the obligations incumbent on the firm in the relationship, meaning that the stakeholder and firm may not share perceptions of what those obligations are (Rousseau, 1990; Morrison & Robinson 1997). Psychological contract research has studied both contract fulfillment (i.e. meeting or exceeding perceived obligations) and contract breach (i.e. failing to meet perceived obligations) and their effects (Morrison & Robinson, 1997). For example, when an employer and employee enter into a relationship, the employee has unwritten expectations of the organization with respect to pay, opportunities for career advancement, etc. Should the employer meet these expectations, the employee's psychological contract is "fulfilled." If the employer fails to meet expectations, there is a "breach" of the employee psychological contract. Fulfillment of the employee psychological contract is associated with generation of relational wealth with employees while breach of it is associated with negative outcomes.

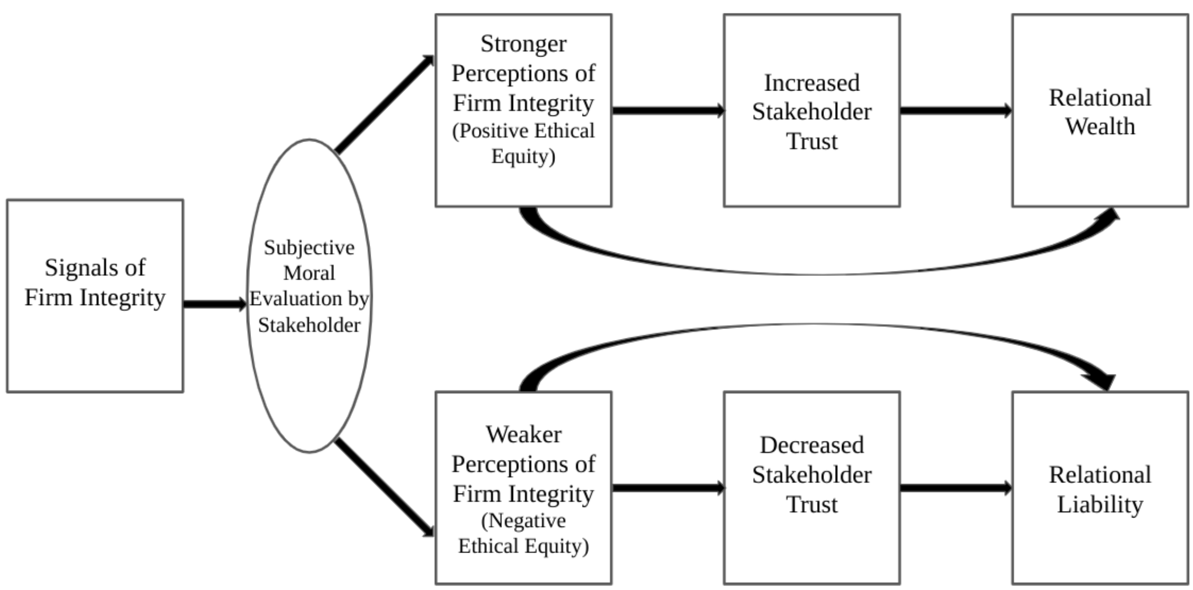
The psychological contracts literature has typically considered expectations related to economic (pay, advancement, benefits) and socio-emotional (prestige, recognition, self-esteem) rewards (MacNeil, 1985). Thompson and Bunderson (2003) argued that, in addition to economic and socio-emotional benefits, ideological rewards (Blau, 1964) (e.g. purpose, opportunities to contribute to a cause, etc.) can be a component of psychological contracts between employers and employees. Stakeholder psychological contracts, whether transactional or ideological, can be infused with expectations about fairness, justice, and ethics. We describe such expectations held by stakeholders as being morally infused. Stakeholders will perceive firms as more trustworthy and gain greater confidence in them when their morally infused expectations are met or exceeded by the firm. When organizations meet stakeholder moral psychological contracts, stakeholders will gain stronger perceptions of the organization's integrity factor of trustworthiness, meaning ethical capital will increase. On the other hand, when organizations breach stakeholder moral psychological contracts, stakeholders will infer lower levels for the integrity factor of trustworthiness, meaning ethical capital decreases. Taking this perspective, the moral psychological contracts of stakeholders are closely related to what Post et al. (2002: 9) called a corporation's "license to operate" which rises out of "its ability to meet the expectations of...constituencies" or stakeholders.

The unit of analysis for psychological contracts research is typically individual level. Within our model, individual-level stakeholders (e.g. employees or customers) have their own psychological contact with the firm while collective-level stakeholders (e.g. strategic partners or communities) form collective psychological contracts as groups strategic decision makers (e.g. managers in firms, politicians or activists in communities) form collective trust orientations (Zhong et al., 2017) and collectively held psychological contract expectations of firms. Again, these expectations, whether individually or collectively derived, can be fulfilled or breached by the firm. These contracts will include moral expectations about fairness and ethics, comprising a moral psychological contract similar to what scholars have called an ideology infused psychological contract (Thompson & Bunderson, 2003). When firms fulfill moral psychological contract obligations as perceived by a given stakeholder, it provides the stakeholders with valuable information about the firm's characteristics, signalling the integrity factor of trustworthiness. This is the case because integrity is the extent to which a trustee is perceived to adhere to principles the trustor finds acceptable (Mayer et al., 1995; McFall, 1987) and those principles which a stakeholder considers acceptable are contained within the moral psychological contract. On the other hand, when the firm breaches this contract it also sends a signal to the stakeholder which is weakens perceptions of integrity, generates negative ethical capital, and translates into relational liabilities rather than relational wealth.

A General Model of Ethical Capital and Relational Wealth

Fig. 1 summarizes our model of ethical capital and relational wealth. Signals of firm integrity (e.g. behaviors, moral reputation) are processed and evaluated by a stakeholder subject to their values (Godfrey, 2005) and interpretation of the social contract (Rousseau, 1995). Positive moral evaluation of the signal strengthens the stakeholder's perceptions of the integrity factor of trustworthiness (Mayer et al., 1995) while negative moral evaluations weaken perceptions of firm integrity. Perceptions of the integrity factor of trustworthiness are an antecedent of trust (Mayer et al., 1995), meaning that strengthened perceptions are associated with increased stakeholder trust and weakened perceptions are associated with decreased stakeholder trust. Stakeholder trust is manifested in high-value stakeholder behaviors (Caldwell & Hansen, 2010) while lack of it is manifested in value reducing behaviors. In addition to this indirect effect of ethical capital on relational wealth via stakeholder trust, there is also a direct effect. Ethical capital itself affects relational wealth in one of two main ways: (1) by increasing levels of relational wealth, and (2) by influencing the current stock of relational wealth. Ethical capital increases absolute levels of relational wealth and negative ethical capital decreases absolute levels because the constituent perceptions held by stakeholders that give. Ethical capital can influence current stocks of relational wealth either by acting like a form of insurance (Godfrey, 2005) protecting it against potential future damage or by increasing the productivity and value of current relational assets. It's important to note that negative ethical capital can in like manner affect current stocks of relational wealth in two ways. One way is by creating a [reputational] liability that functions opposite to insurance, making relational wealth more fragile. Negative ethical capital can also make current relational assets less productive and valuable.

Figure 1. A General Model of Firm Signals, Ethical Capital, and Relational Wealth



Whenever a new definition or construct is proposed, it's essential to provide a rationale for the new conceptualization. In addition, a new construct must be sufficiently differentiated from extant constructs to have any conceptual utility beyond what the literature already uses. The primary constructs we anticipate will seem conceptually similar to ethical capital and which need to be differentiated are social capital (Alder & Kwon, 2002; ref) and reputational capital (Fombrun, 1995; ref). Our purpose here is not to provide an exhaustive review of each of these constructs. Rather, we briefly discuss the essence of reputational and social capital to demonstrate that ethical capital is not logically equivalent to either of them, though intrinsically related to both of them.

Social capital is "the resource available to actors as a function of their location in the structure of their social relations" (Alder & Kwon, 2002, pg. 18). This form of intangible capital is rooted in relationships or networks which enable members to work toward collective goals (Brehm & Rahn, 1997) and gives members access to one another's resources (Knoke, 1999; Adler & Kwon, 2002). The fundamental notion of social capital lies in this proposition: the goodwill of others toward an actor are a resource which can be advantageously converted into other resources (Alder & Kwon, 2002; Dore, 1983).

Reputational capital, as its name suggests, represents a resource that provides advantages to a firm based upon its reputation. It is an intangible asset that some have related to brand equity and goodwill (Fombrun, 1995) that establishes a firm within its environment (Worden, 2003). Reputational capital is based on perceptions of the firm held by its observers (Suh & Amine, 2007). Basically, the idea of reputational capital is that a firm's reputation is an asset which can be converted into wealth.

Our argument for differentiating ethical capital from reputational and social capital is simple and straightforward. Following a distinction made by Dyer & Singh (1998), reputation is an informal safeguard rooted in *indirect* experience of a firm while trust is an informal safeguard rooted in *direct* experience of the firm. A reputation of trustworthiness is a signal to observers of trustworthiness (Barney & Hansen, 1994) that can shape perceptions of trustworthiness, but this indirect experience with the firm is different from the direct experience with the firm associated with goodwill trust (Dyer & Singh, 1998).

As a stakeholder receives signals about a firm, those signals are measured against stakeholder expectations and values and are used to continuously refine perceptions. Direct experience with a firm of course affects ethical capital because it's a proximal signal of the firm's character. Indirect, reputation-based experience can also influence ethical capital because firms operate within a network of stakeholders, not just dyadic relationships with individual stakeholders (Rowley, 1997). When a firm interacts with one stakeholder in a positive or negative way and this information reaches another stakeholder, the latter stakeholder will use this information to refine its perceptions of the firm's character and ethical capital will be affected via reputation. Again, the evaluation of this information will be based on the observing stakeholder's beliefs about what constitutes morally acceptable behavior. For this reason, the reputation a firm has can be a signal leading to positive ethical capital with some stakeholders while creating negative ethical capital with others (Godrey, 2005).

In summary, stakeholder perceptions of a firm's underlying moral character which constitute ethical capital are formed through both indirect and direct experience with the firm. Social capital is premised on direct experience with another party and need not always involve the integrity factor of trustworthiness. Reputational capital is associated with indirect experience of the firm and can arise from broader types of reputation other than a reputation with a decidedly moral dimension. Ethical capital is a subset of both reputational capital and social capital, with the nature (indirect or direct) of the signal affecting perceptions of the firm being what differentiates the category (see Fig 2.)

In **Table 1.** we give the reader a non-exhaustive list of constructs similar to ethical capital and their definitions along with sources. Inspection of and comparison with each of these definitions reveals that our ethical capital construct is distinct. Notwithstanding prima facie similarities between ethical capital and other intangible constructs, ethical capital is unique, being either an antecedent of (e.g. trust), subset of (e.g. reputational and social capital), or manifestation of (e.g. ethical and moral capital) these other concepts.

Table 1. Ethical Capital and Similar Extant Constructs with Definitions

Construct	Definition	Source
Ethical Capital	"the collection of stakeholder perceptions relating to a firm's underlying moral character which can be converted into relational wealth"	This paper
Trust	"the mutual confidence that no party to an exchange will exploit another's vulnerabilities."	Sabel, 1993:1133
	"the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party"	Mayer et al., 1995:712
	"the relinquishing of one's personal control or power to another in the expectant hope that the other party will honor a duty or social contract inherent in the relationship"	Cadwell & Hansen, 2010; Cadwell et al., 2009
Social Capital	"the ability of people to work together for common purposes in groups and organizations"	Fukuyama, 1995:10
	"the process by which social actors create and mobilize their network connections within and between organizations to gain access to other social actors' resources"	Knoke,1999:18
	"the ability of actors to secure benefits by virtue of membership in social networks or other social structures"	Portes,1998:6
	"the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor."	Adler & Kwon, 2002:23
Reputation	"a form of intangible wealth that is closely related to what accountants call goodwill and marketers term brand equity"	Fombrun,1996
	"a fragile resource that situates the organization in its environment"	Worden, 2003
Ethical Capital	"the 'price' a morally minded consumer, employee, investor, or other agent puts on active moral agency"	Wagner-Tsukamoto, 2005
	"an economic advantage that results from the objective prevalence of the observance of certain moral rules"	Ratnapala, 2003
Philanthropic Moral Reputational Capital	"represents the outcome of the process of assessment, evaluation, and imputation by stakeholders and communities of a firm's philanthropic activities" and "provides the firm with insurance-like protection for its relationship based assets"	Godfrey, 2005

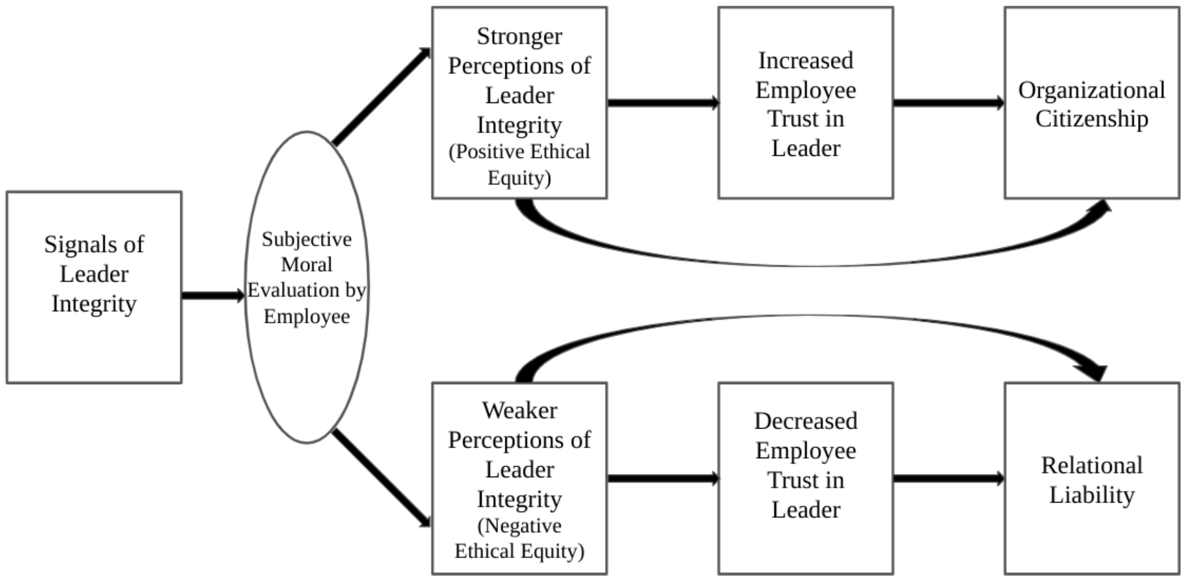
Ethical Capital Across Stakeholders and an Operationalization Strategy

Below we describe ethical capital between the firm and four main types of stakeholders: *employees*, *strategic alliance partners*, *customers*, and *communities*.

Ethical Capital with Employees

Employee's affective commitment (Meyer et al., 1997) is a form of relational wealth (Godfrey, 2005; Business Ethics Quarterly, 2002) which increases when employees perceive the ethical climate of their organization as a benevolence one (Cullen & Victor, 1993). It represents a form of relational wealth because organizational citizenship, which is associated with high-value behaviors (Organ, 1988), is born from a high level of commitment. This commitment is based on perceptions of the fairness of leaders (Husted & Folger, 2004). On the other hand, perceptions of an egoistic ethical climate reduce employee affective commitment (Cullen & Victor, 1993) and we expect self-interest protecting/value destroying behaviors when employees don't trust their leaders. These behaviors bring increases in transaction costs and formal safeguards (Caldwell & Hansen, 2010; Poppo & Zenger, 2002).

We argue that as employees receive signals about the integrity of the company they work for (e.g. signals of leader integrity) they will develop stronger or weaker perceptions of the firm's integrity. In other words, positive or negative ethical capital will accrue between the firm and employees as employees receive and evaluate these signals. Ethical capital with employees can be converted into valuable forms of relational wealth such as organizational commitment, retention, or organizational citizenship.

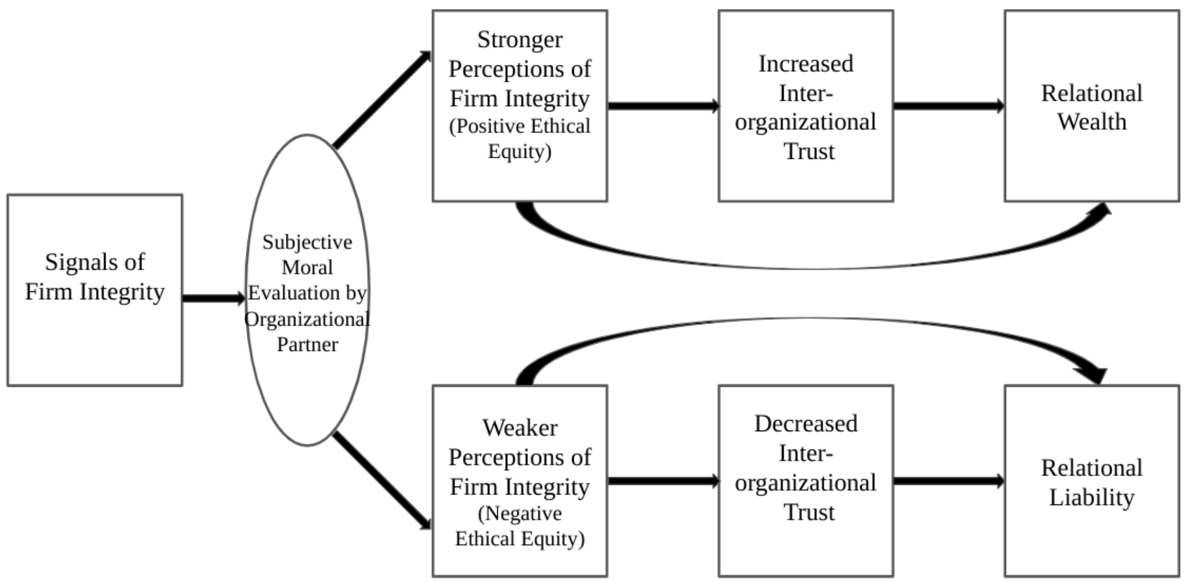


Ethical Capital in Strategic Alliances

In their Relational View of the Firm, Dyer & Singh (1998) argued that interorganizational relationships are key to understanding competitive advantage and proposed four possible sources of competitive advantage arising from these relationships. One of the proposed sources was effective governance, which they divided into two types: third-party enforcement and self-enforcement. Within the latter class of governance, they included informal safeguards, of which trust within the interorganizational relationship is one example. Other strategy scholars have also argued that trustworthiness is a source of competitive advantage (Barney & Hansen, 1994).

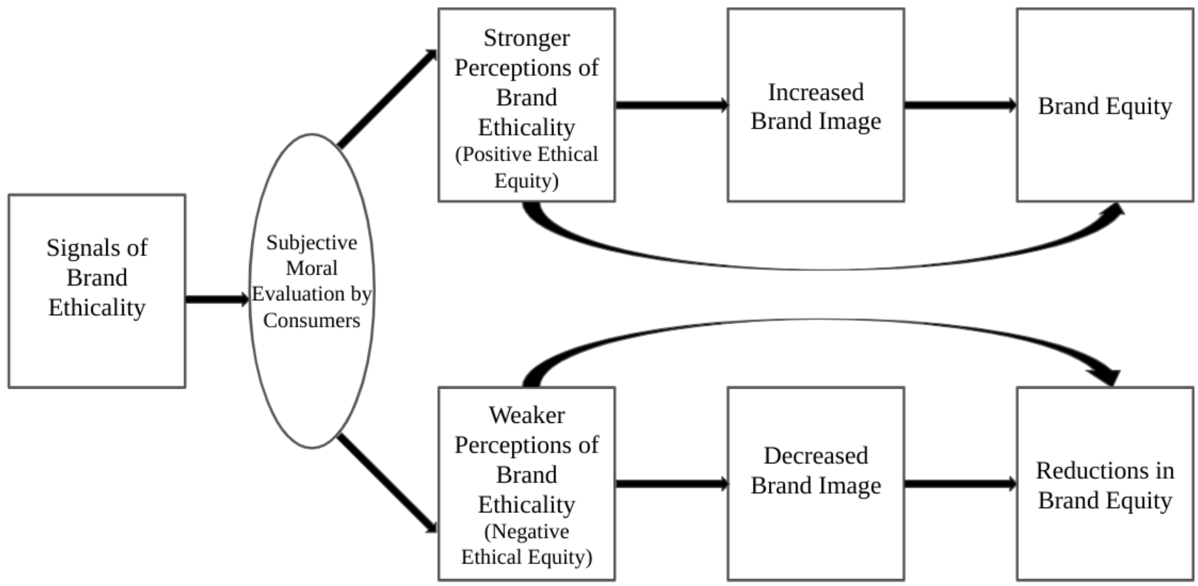
Interorganizational trust involves an organization's strategic decision makers holding a collective trust orientation toward another firm (Dyer & Singh, 1998: 669; Zaheer, McEvily, & Perrone, 1998; Zhong et al., 2017). Collective trust orientations held by a stakeholder group of strategic decision makers toward a firm are distinct from interpersonal trust between boundary spanning members of these organizations (Zhong et al., 2017).

Trust in interfirm relationships increases mutually beneficial behavior (Madhock, 1995). We argue that interorganizational trust in the firm held by strategic alliance partners is associated with relational wealth because it will lead to high value trusting behaviors (Caldwell & Hansen, 2010) and will insure intangible resources in the interfirm relationship (Godfrey, 2005).



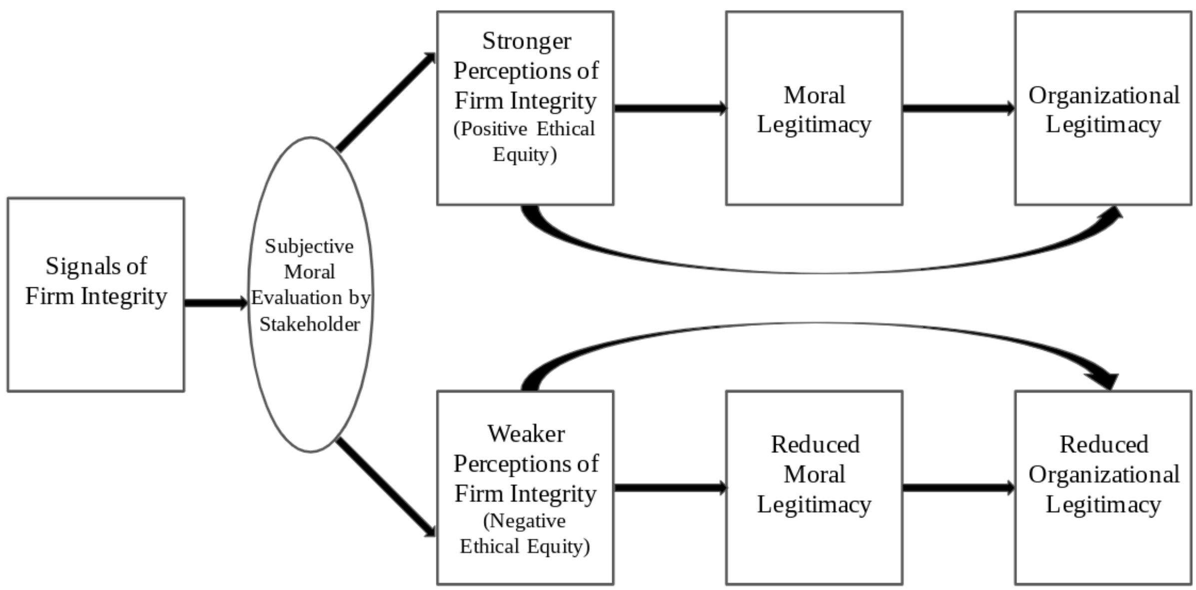
Ethical Capital with Customers

Naturally, all else equal, consumers will prefer to do business with firms and brands they trust and perceive as having and acting on acceptable values. Recent research has found a positive direct effect of customer perceived ethicality of a brand on brand equity as well as an indirect effect on brand equity through the mediator of brand image ((Iglesias et al., 2019; Sierra et al., 2017). We argue that customers can gain stronger or weaker perceptions of brand ethicality and these perceptions can be thought of as positive or negative ethical capital with consumers which are converted into relational wealth (e.g. brand equity) or relational liabilities (e.g. reductions in brand equity), respectively.



Ethical Capital with Communities

"Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574). Organizational legitimacy (Suchman, 1995) therefore is the sociological concept of how desirable, proper, or appropriate an organization is perceived to be by the communities in which they exist and has been called a form of relational wealth (Godfrey, 2005; Business Ethics Quarterly, 2002). One component of general organizational legitimacy laid out by Suchman (1995: 579) was moral legitimacy which "reflects a positive normative evaluation of the organization and its activities" (e.g., Aldrich & Fiol, 1994; Parsons, 1960). It "rests not on judgments about whether a given activity benefits the evaluator, but rather on judgments about whether the activity is "the right thing to do."" (Suchman, 1995: 579). A measure has been developed and validated which measures individual perceptions of organizational moral legitimacy (Alexiou & Wiggins, 2018). We argue that community held perceptions of firm integrity will increase the moral legitimacy that firm holds within the community. As an antecedent, this increased moral legitimacy will increase general organizational legitimacy which is a valuable form of relational wealth the firm can hold with community stakeholders.



Operationalization and Measurement of Ethical Capital

As shown in Table 2., measures already exist in the academic literature for the various stakeholder perceptions we have described. An operationalization strategy of ethical capital as we have defined it would involve using these extant measures to collect data on the perceptions that employees, consumers, partners, and communities have of a focal firm.

Table 2. Ethical Capital and Relational Wealth Across Stakeholders and Extant Measures

Stakeholder	Ethical Capital	Measure	Relational Wealth
Employees	Perceptions of positive ethical climate	Ethical Climate Index (Arnaud, 2010)	Organizational commitment and trusting behaviors
	Perceptions of positive ethical culture	Ethical Culture Audit (Trevino & Weaver, 2003)	
	Perceptions of leader trustworthiness	Integrity Factor of Trustworthiness (Meyer et al., 1995)	
Strategic Alliance Partners	Perceptions of firm trustworthiness	Integrity Factor of Trustworthiness (Meyer et al., 1995) as reported by collective of strategic decision makers	Collective trust orientation and trusting behaviors
Customers	Perceived brand ethicality	Customer Perceived Ethicality (Iglesias et al., 2019)	Brand equity and trusting behaviors
Communities	Perceptions of morally desirable traits	Individual Perceptions of Moral Legitimacy (Alexiou & Wiggins, 2018)	Moral legitimacy and trusting behaviors

Conclusion

We have drawn upon and synthesized extant theory to construct an integrated model of ethical capital in which stakeholder perceptions of a firm's underlying moral character formed by evaluating relevant signals (e.g. reputation, behavior) about the firm in light of a moral psychological contract are a relational asset associated with high-value stakeholder behaviors and insurance of intangible relational wealth (Godfrey, 2005). We have outlined a strategy for operationalizing ethical capital with various stakeholders that draws heavily on prior empirical work. Future research will involve development of measures for the components of our model which don't yet have measures in the literature. Future work will operationalize ethical capital for productive use in both academic scholarship and ethical investment decision making.

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