

CHAPTER **5****Behavioral Ethics in Business Organizations:
What the Research Teaches Us**

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Do individuals in organizations always act and behave consistently with what they know or believe to be the right thing to do? While Plato may contend no one ever knowingly does evil, most of us believe individuals sometimes act contrary to what they know is right.¹ Indeed, whether viewed legally or ethically, we hold individuals accountable for their behaviors and choices, at least in part because they *should have* known better.

Even if we agree on what someone should ethically do in a given situation, most of us realize that our judgment is often clouded by other factors that cause us to act against our intuition of what good sense dictates. A manager may clearly understand signing a fraudulent accounting statement is legally and ethically wrong, yet the manager signs the document. Why? What influenced the manager to behave unethically? Once we begin to ask these questions, we are no longer inquiring about what the right thing to do is, or what a good person should do. Rather, we are attempting to understand why such an individual acted the way he or she did, trying to figure out the factors that influenced or caused the behavior. We have moved from a normative and prescriptive framework to a scientific and descriptive mode of analysis. In short, we are doing social science rather than philosophy.

This social science perspective is explored below in terms of its importance in leading organizations toward more ethical behavior. After some preliminary definitions and distinctions, some of the conceptual models and empirical research related to ethical decision-making in organizations is summarized, and the implications for leading an organization are explored. The first section goes into considerable detail about definitions and distinctions that are necessary in establishing an understanding of how behavioral ethics can better enable managers and leaders to create, and maintain, an ethical culture within an organization.

Definitions and Distinctions

Morality and ethics. Ethics and morality are terms that often are used interchangeably. When we say a person either acted unethically or immorally, we generally mean the same thing. When we say something is a moral or ethical issue, the two terms typically have the same connotation. However, I find it useful to make a distinction between ethics and morality, allowing for a more systematic approach when thinking about ethical issues. I take morality to be the starting point. With few exceptions, such as sociopaths, all humans have a moral code or some sense of morality. The term morality refers to norms, standards, or principles; the purpose of which is to provide guidance or direction for our choices and actions. All human cultures and groups have moral codes or norms. In distinction, *Ethics* connotes the study of morality from either a philosophical (normative) perspective or a behavioral (social science and descriptive) perspective. *Business ethics* is the study of morality in the sphere of business organizations, including both normative and behavioral approaches.

From the above definition of morality, we notice there are norms or expectations in every social group about the behavior of individuals. We can now see some conditions that define what it means to be a moral agent. The first is *rationality*. The existence of a set of guiding norms or principles assumes individuals can grasp a group's guiding moral principles and make decisions based on them. Lacking this capacity, individuals would not have the understanding and ability to think in a principled way. Absent reason, or the capacity to act on the basis of reason, individuals may behave only from instinct, or react irrationally or impulsively. It would be inappropriate to view a seriously brain-damaged person as a moral agent. Due to that condition, he or she would lack the capacity to reason and act on principle. In referring to a deranged killer, who seemingly has no compunction, conscience, or understanding that his behavior is wrong, we might say, "He behaved like an animal," meaning he behaved impulsively and without reasoned thought.

Two other elements involved in being a moral agent are *choice* and *accountability*. To function as a moral agent is to make choices and to be held accountable for those choices by one's social group and self. An improper moral choice will result in consequences (accountability) when the actor is a fully developed, autonomous moral agent. If Johnny takes a toy from a neighbor's house because he likes the toy, his parents will view this as an opportunity for moral instruction rather than punishment for stealing—at least at certain ages and stages of the child's development. In the early stages of development, a child does not completely distinguish possession from ownership. Johnny is too young to know that what he was doing was wrong, and therefore education is a more appropriate parental response than punishment. We do not hold young children accountable until they understand moral principles and are ca-

pable of acting on the basis of those principles—until they are fully developed rational beings and complete moral agents.

Yet, the sources of moral guidance are subject to debate; lurking here is a thorny issue related to human nature itself. Some hold all humans are born good, others hew to the notion we are born evil. Some say moral principles emanate from God, while others believe there is genetic basis for moral principles adopted by humans after years of evolution. Without engaging in discussion of the validity of these theories, I suggest at least some part of morality is learned. Many ethicists begin with an assumption that learning moral norms, standards, and principles originates in a nuclear group, such as the family, and expands to larger communities, whether it be a local town, a business, or the global community. As individuals become properly socialized into their respective communities, the groups' norms and principles become their own and, in that sense, these norms ultimately become their personal morality. Of course, as individuals become fully rational and independent in their thoughts and actions, they may come to challenge or question some of the moral norms and practices of their group, perhaps rejecting some norms and adopting new or different principles. Hence, one's personal morality may be different from the particular community to which they belong.

Normative and behavioral ethics. Much as political philosophy and political science are the study of the nature of politics, political community, and political behavior, ethics can be thought of as the study of the nature or morality, moral community, and moral behavior. Business ethics can be thought of as an area of applied ethics. Business ethics is the study of moral issues in the business realm, and organizational ethics is the study of moral behavior in organizational contexts.

Whether we wish to consider ethics generally, or examine specific areas of applied ethics in business, journalism, health care, or government, there are two basic approaches to doing so: *normative* and *behavioral*. The normative approach is concerned with deciding the “right” decision or course of action. When confronted with a conflict of principles or obligations, how should one determine what is ethically correct? What is an appropriate rule for making decisions? One might reflect on the most important and fundamental moral values a leader should have. These kinds of questions are normative, or what is called action guiding. The answers in normative analyses are prescriptive; they tell us what one ought to do, or what guiding values to embrace.

As noted at the outset, some ethical questions are not about what is right or wrong, and instead are about what influences individuals to behave as they do when confronted with moral choices. Does a leader or an organization's “tone at the top” really matter in terms of the moral behavior of its employees? Do codes of conduct have an impact in terms of whether employees behave morally and ethically? Such questions fundamentally ask for descriptive or explanatory (rather than prescriptive) answers. In an important sense, this approach focuses on what is, not what ought to be; I refer to it as *behavioral*

or *descriptive* ethics. Whereas normative ethics is philosophical in character, behavioral ethics is a social science enterprise, an empirical and evidence-based approach. Included in this approach is moral psychology (focused on an individual's moral processing of information and the making of moral choices from a psychological point of view) and organizational ethics (studying individual behavior and choices in an organizational context from the perspective of social psychology). Broadly speaking, behavioral or descriptive ethics asks different questions than normative ethics, and utilizes the tools of social science to answer them.

Organizational and Behavioral Ethics: Knowledge Development

While normative ethics has a long and venerable history (as far back as ancient Greece), organizational and behavioral ethics as a discipline is, at most, a half century old. The applied area of business ethics (which utilizes survey research, theoretical modeling, and hypothesis testing) is only 30 years young. Early research on business ethics was primarily descriptive in character, summarizing data from surveys. As far back as 1961 the *Harvard Business Review* published a short article, "How Ethical Are Businessmen?" based on a survey of 1700 executives. The results confirmed, "a strong desire to improve business behavior."² The authors concluded, "things can't improve unless top management stands its ground and makes uncompromisingly clear that ethical methods are the only approved way of doing business."³ The observations are certainly as true today as they were nearly 50 years ago. In 1976, during the post-Watergate era, J.S. Bowman conducted a survey comparing the ethical perceptions of business and government managers in order to get a sense of whether the two groups had different perceptions with regard to issues of ethical behavior (then, as now, there was a general crisis of confidence in all societal institutions). One of the findings was that three-quarters of those surveyed said pressures from the top caused people to compromise their beliefs. Ten years later, Waters, Bird, and Chant found, "moral considerations are very much part of everyday managerial life," and the most common moral issues were related to employees as compared to other stakeholders.⁴ These empirical studies and countless others provide data that goes beyond anecdotal information or opinion.

Organizational and Behavioral Ethics: Some Conceptual Models

In the mid-1980's, social scientists began to develop models of decision-making and behavior in business organizations. Using theoretical and conceptual models, researchers generated hypotheses and tested them empirically, taking another step in adding complexity to social science methods utilized in under-

standing the empirical reality of business ethics.

Moral psychologist James Rest proposed one of the most important conceptual models of organizational and behavioral ethics. Following the work of Lawrence Kohlberg, Rest focused on developing measures of cognitive moral growth. He conceived of ethical decision making in a four stage process: 1) ethical interpretation or perception of situations; 2) ethical judgment or formulation of the morally right course of action; 3) selection or actual choosing of the moral values and actions; 4) implementation or execution of the moral course of action.

Calling attention to the lack of a comprehensive theory guiding empirical research in organizational ethics, groundbreaking work by Linda Treviño proposed a *person-situation interactionist* model. The model identifies cognitive moral development of individuals as a critical variable in explaining ethical decision-making and includes other individual variables (locus of control and ego strength) and situational variables (organizational culture and job context) as moderating variables, interacting with cognitive moral development to explain ethical decision-making.

Thomas Jones, arguing ethical decision-making outcomes are contingent on the character of the issue itself, incorporates the moral intensity of an issue as a key variable in understanding ethical decision-making in organizations. For Jones, moral intensity includes factors such as the significance of the consequences on others, the degree to which there is consensus about the issue, and the likelihood the effects and consequences will occur.

I have broadened these three conceptual models (see Exhibit 1). In my model, any of the four stages identified by Rest can be affected by either individual or environmental factors. Ethical decision-making is thus a function of the decision-making of individuals as moderated by individual and environmental variables. In any stage of ethical decision-making, various individual factors (a disposition to comply with authority) and environmental factors (an organizational culture demanding obedience to authority) can influence decision outcomes.

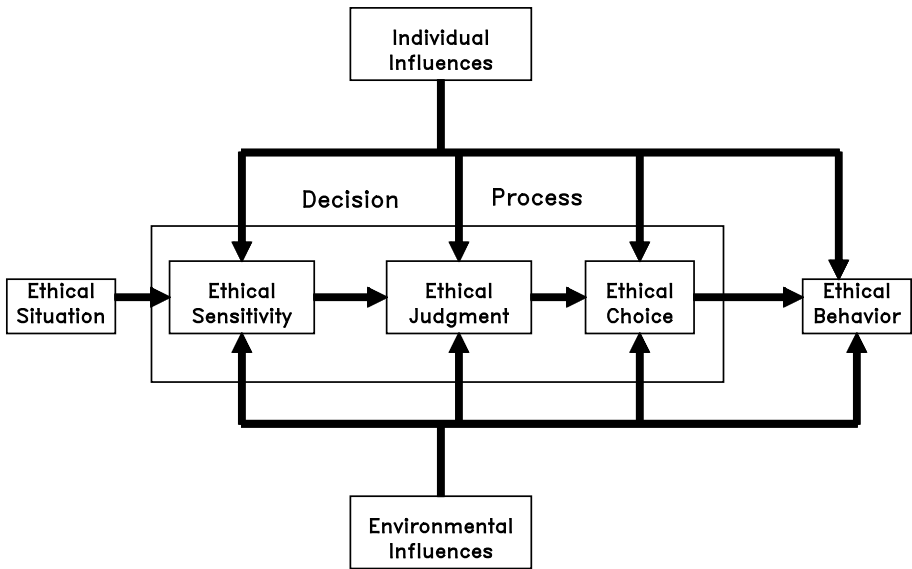


Exhibit 1: General Model for Ethical Decision Making

Organizational and Behavioral Ethics: Why It Matters and What We Have Learned

Leaders and managers carry models or theories about ethics and business, whether or not these are brought explicitly to consciousness. They make assumptions about what affects the behavior of their employees, and what strategies will work in terms of producing ethical behavior. Assumptions are seldom questioned, unless the outcomes are noticeably inconsistent or unsatisfactory. Social science studies of behavioral ethics provide an increasingly systematic means of testing theories and assumptions.

Imagine a leader just given responsibility for the investment banking business of a global financial enterprise. The leader is asked whether ethics is important in this new role, and how he or she plans to lead the organization to behave ethically. The leader replies ethics will be a priority, since confidence in the industry has been shaken by recent events. When pressed for specifics, the leader says codes and broad values statements are only window dressing and what matters is having clear rules and developing systems for monitoring and compliance. The leader says it is especially important to have rules in banking, since the industry is prone to unethical behavior, further stating that the size of the organization does not matter as long as there is a strong leader at the top. The leader will recruit and promote younger people in the organization since he or she believes they will be more ethical and respond better to strong leadership, compared to older employees who have their own ideas and are skeptical of changes and new leadership. She also contends that being

religious is a strong indicator that people will be more ethical.

All leaders operate with similar schemas and assumptions about how people function in organizations. The question is whether these ideas are solidly based on reality, or whether they are more idiosyncratic and personal. When leaders are open and curious, they can learn to test the validity of their assumptions with the aid of social science research; this matters greatly because all leaders are responsible for establishing the systems and culture within their respective organizations.

It is with this backdrop and motivation we now examine some of the findings from the discipline of behavioral and descriptive ethics. A recent review of 174 academic articles about ethical decision-making in top business journals during the period 1996-2003 revealed the following about organizational influences on ethical decisions and behavior.⁵

- “...the majority of studies support the idea that the existence of a **code of ethics** is positively related to ethical decision-making.” All things being equal, having clear written statements about the fundamental values of an organization, along with clear behavioral expectations, produce more ethical organizations and more ethical employees.
- “The research generally supports the notion that **ethical climates and cultures** have positive influence on ethical decision-making.” The atmosphere and ways of doing things in an organization effect ethical behavior. When ethical concerns are discussed openly, when individuals generally trust one another, and when there is a strong sense that members of the group are committed to the same principles, ethical behavior is more likely to result.
- “...no overall conclusions regarding the effect of **industry** can be drawn.” There are no significant differences related to ethical behavior of individuals across various kinds of industries, even though each industry has its own peculiar sets of issues and challenges.
- “The research in this area generally suggests that **organizational size** has a detrimental effect on ethical decision-making.” It is more difficult to sustain ethical behavior in large organizations; hence, leaders of such institutions should pay attention to strategies and structures that will improve the likelihood individuals will make ethical choices. For example, Johnson & Johnson (a large global corporation) makes sure everyone in the organization is educated to understand

the company's famous one-page Credo, and all managers have annual training to ensure ethical issues and challenges are addressed across the organization.

- “The impact of **rewards and sanctions** is clear—**rewarding unethical behavior** tends to increase the frequency of such behavior, while effective sanctioning systems tend to decrease such behavior.” One of the surest ways to create ethical problems is to fail to address violations of the values and standards of the organization (by overlooking and not responding to unethical behavior, or even rewarding it). On the other hand, finding ways to reward or, at least, acknowledge individuals of integrity provides dividends for the organization.

The review by O'Fallon and Butterfield also included 270 findings relating to individual factors that influence ethical decisions and behavior, including:

- **Gender.** Gender does not seem to be a strong predictor of ethical behavior. When researchers do find gender differences, women seem to heed to ethics rules slightly more often than men.
- **Philosophy/values orientation.** “More than two decades of research reveals fairly consistent findings. Idealism and deontology (duty-based orientations) are generally positively related to ethical decision-making, while relativism, teleology (decisions based on expected consequences), and other factors such as economic orientation are generally negatively related to ethical decision-making.”⁶ While an important driver for most decisions is the expected consequences and other relative benefits to stakeholders, this finding suggests leaders can serve the long-term interest of their organizations by establishing a culture of fundamental duties that should not be compromised, regardless of possible beneficial consequences. These include the duty of truthfulness to customers and respect for employees.
- “The research on **age** has produced mixed and inconsistent results.”⁷ A manager may have strong ideas about whether older and more experienced employees make wiser and more ethical decisions, or whether younger people (who are more idealistic and not jaded) make more ethical choices. However, the mixed research results would suggest one should

be rather cautious about acting on these beliefs, given the uncertainty of the studies.

- “...the research generally suggests a positive relationship between CMD [**cognitive moral development**] and ethical decision-making.”⁸ Cognitive moral development has to do with how individuals process ethical information and arrive at decisions about what is right and wrong. Individuals at the highest levels of moral development tend to be able to put themselves in another’s place and see decisions from a more universal perspective. At middle levels of development, group norms and group loyalty tend to dictate what is considered ethical, and at the lowest levels of development, individuals tend to see right and wrong from an egocentric perspective in terms of how decisions affect themselves. Leaders who understand the level of moral development of their employees can communicate with, and motivate, employees more effectively. Understanding that most individuals end up in the middle stages of development, leaders should consider the importance of establishing and reinforcing loyalty to group norms.
- “Internal **locus of control** is positively related to ethical decision-making, and external locus of control is negatively related.”⁹ Locus of control is essentially a measure of whether individuals believe they are in control of events in their lives (internals) or whether external events and forces determine what happens to them (externals). Research shows the more internal the orientation, the more likely a person will make ethical choices. It is unclear whether leaders can influence personal orientation; however, they can increase their sensitivity to individual orientations and preferences.
- “The results consistently suggest that **Machiavellianism** [disposition to be manipulative] is negatively related to the ethical decision-making process.”¹⁰ Individuals who are manipulative and self-centered are often very clever about how they pull strings to produce results. While leaders might be tempted to use the strengths of such individuals to achieve results, relying on them can be very risky, especially if ethical conduct is paramount to the organization.

Organizational and Behavioral Ethics: Management Implications and Further Findings

Based on their research, Linda Treviño and Gary Weaver have drawn strategies for effectively and ethically managing business organizations. They begin with a set of important questions about formal ethics programs: Do such programs really reduce unethical behavior and increase ethical behavior? Are there other positive benefits from investing in formal ethics programs? In answering, they distinguish “compliance orientation” from “values orientation” programs. Although all ethics programs are organizational control systems that “aim to create predictability in employee behavior and correspondence between specific employee behaviors and more general organizational goals and expectations,” a compliance system focuses more on having clear, written rules and sanctions for violations.¹¹ Such an orientation is likely to be led by a corporate counsel or other attorney. A values approach is focused on gaining consensus around key core values, and is likely to be led by someone from human resources. Comparing the outcomes of the two systems as measured by increased ethical awareness, commitment to the organization, employee integrity, willingness to communicate openly about issues, willingness to report violations to management, improved decision making, willingness to seek advice, and reduced ethical conduct, Treviño and Weaver found both orientations can be effective. However, they found that the values orientation was more useful in explaining the purpose and role of ethics training. They concluded an integrated approach may be the most beneficial, utilizing a values orientation to frame the purpose and role of ethical rules and training, and a compliance orientation to ensure accountability and performance. Drawing on data from six companies, some of their other key findings include the following:

- Perception of employees that ethics programs are oriented to “protect top management from blame” has a negative effect on ethical behavior and commitment to an organization.
- Perception that a company has a formal mechanism for raising concerns and making ethics part of performance appraisal has a positive effect.
- Perception that the organization follows through and that ethics programs and policies are not mere “window dressing” has a positive effect.
- Leadership (tone at the top) was one of the most important factors contributing to positive outcomes (leaders here in-

clude supervisors).

- Perception of fair treatment was strongly and positively related to ethics outcomes (The perception of fair treatment was related positively to employee commitment and to their willingness to deliver ‘bad news’ to management.)
- Perception that ethics is talked about and integrated into decision making was positively related to ethical outcomes.
- Perception that ethical behavior is rewarded was important and highly correlated with employee commitment and delivering bad news when necessary.
- Perception that the culture of the organization was one of “unquestioning obedience to authority” was negatively related to ethical outcome measures.

In another set of studies, Treviño and Weaver examine how “ethical culture” and “ethical climate” affect attitudes and ethical behavior in organizations. They defined ethical culture as “the subset of organizational culture, representing a multidimensional interplay among various formal and informal systems of behavioral control that are capable of promoting either ethical or unethical behavior” and ethical climate as the practices and procedures that have ethical content in an organization, including perceptions about whether employees have an inclination to make decisions for the benefit of the organization or for themselves, and whether there is a perception that authority can be questioned in the organization.¹² Combining both ethical climate and culture into a more general variable of ethical environment, they found that an ethical environment and climate that fosters obedience to authority were two of the strongest predictors of positive behavior. The more subjects characterized the environment as ethical, the more employees demonstrated commitment to the organization. The more an atmosphere of obedience to authority in the organization was observed, the more unethical the behavior, and the less committed employees were to the organization. In terms of ethical climate, an atmosphere fostering self-interest and protection of personal interests was negatively related to ethical behavior. In terms of organizational commitment, employees were more committed to the organization when leaders paid serious attention to ethics, when organizations “were concerned about the welfare of employees and the community.”¹³

Conclusion

Sometimes it is not easy for leaders to determine the right thing to do, and

competing duties and obligations can make such decisions uncertain, unclear, and untidy. Other times it is a matter of getting individuals to stay true to a common set of principles and virtues (honesty and truthfulness, fairness and equality, compassion, promise keeping, transparency, and appropriate levels of competition and self-interest). One of the jobs of leaders and managers is to create the organizational context that promotes and fosters such behavior. Empirical research confirms leaders should establish clear values and standards of conduct for their organizations. They need to model and exhibit such values themselves, reward others who exhibit the values, and sanction those who behave contrary to them. Beyond this, leaders and managers are well served by creating appropriate structures and organizational mechanisms to encourage and sustain those values.

Leaders should be attentive to the climate and culture defining their organizations. In part, this means working to establish a culture of trust and transparency; not one in which obedience to authority is the prominent expectation. Leaders and managers should encourage a culture where members of the organization are comfortable sharing bad news and reporting problems and shortcomings. Leaders and managers of ethical organizations should also create a culture in which self-interest is minimized, and professionalism and promoting the good of customers, employees, and the public are emphasized.

¹ (For example in the *Gorgias* dialogue (467-469) Plato argues that men always seek that which “seems” good to them, even though they may be mistaken. Even choosing distasteful means, e.g. killing, is done for the sake of something they believe is good.)

² Harvard Business Review. (1961). How ethical are businessmen? Harvard Business Review, July-August, 6-8.

³ Ibid.

⁴ Waters, A., Bird, F., and Chant, P. (1986.) Everyday moral issues experienced by managers. *Journal of Business Ethics*, 55, 373-384.

⁵ O’Fallon, M.J. & Butterfield, K.D. (2005). A review of the empirical ethical decision-making literature: 1996-2003. *Journal of Business Ethics*, 59, 375-413.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Treviño, L.K. and Weaver, G.R. (2003). *Managing Ethics in Business Organizations: Social Scientific Perspectives*. Stanford, CA: Stanford University Press.

¹² Ibid.

¹³ Ibid.