Ethical Decision-Making in Business: Behavioral Issues and Concerns[1]

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ABSTRACT. This article examines selected behavioral aspects of ethical decision making within a business context. Three categories of antecedents to ethical decision behaviors (individual differences, interpersonal variables, and organizational variables) are examined and propositions are offered. Moral development theory and expectancy theory are then explored as possible bases for a theory of ethical decision making. Finally, means of improving ethical decision making in firms are explored.

As Cooke (1986) notes, business ethics is at a crossroads. There is a diversity of approaches to understanding ethical problems in business: philosophical (utilitarian versus formalistic perspectives), economic (cost-benefit analysis), and combinations of these approaches (distributive justice) (DeGeorge, 1990; Rawls, 1974; Tsalikis and Fritzche, 1989).

The behavioral arena within ethics is no different and lends itself to multiple directions. Indeed, a recent article, in attempting to lay out an agenda for behavioral issues in business ethics concluded that there was a wide variety of approaches even to defining the agenda: conversation, history, vision, and community (Kahn, 1990).

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The present article does not attempt to lay out a general behavioral theory of business ethics, but rather to identify several unexplored areas, issues, and concerns that such a theory could encompass. Specifically, we will address three categories of behavioral antecedents that may influence ethical decision making: individual differences, interpersonal influences, and organizational influences. In addition, possible theoretical bases for ethical decision making are presented, and a number of research propositions are offered. Finally, we focus upon means of improving ethical decision-making from a behavioral perspective.

Behavioral antecedents of ethical behavior

Individual differences

Although much psychological research has focused on cognitive moral development as a way of investigating ethical behavior, individual differences or personality traits may also influence choice of ethical action taken or may relate to moral development itself (see Lifton, 1985; Connolly and McCarrey, 1978). From our perspective, such individual differences can be of two types: morals-related and morals-unrelated differences.

Morals-related individual differences. Morals-related individual differences are those differences involving a characteristic which is descriptive of the individual's morality. Most representative of such differences are the Machiavellian personality, which is characterized by pragmatism, persuasiveness, manipulation, and the belief that any means justify desired ends (Christie and Geis, 1970) and other measures of ethical ideology or conventional morality, both

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of which measure proclivities toward particular ethical judgments. Such measures may be used as a predictor of unethical or deviant behavior within an organizational setting. For example, an experimental study of sabotage behavior showed that high Machiavellian subjects tended to justify organizational sabotage differently than subjects low in Machiavellianism (Giacalone and Knouse, 1990).

PROPOSITION 1: Individual measures of morality may provide organizations with predictors indicating which individuals or groups may justify or act in ethically questionable ways.

Morals-unrelated individual differences. Morals-unrelated differences are those which do not measure the individual's morality in any way, but may affect the way an individual makes his or her decisions. One important difference is locus of control, which refers to the perception of how much control an individual exerts over events in life. An internal believes that he/she controls outcomes, while an external believes that outside factors (e.g., luck, fate) control outcomes (Rotter, 1966). In the context of ethical decision-making, an internal is more likely to take responsibility for his/her actions, while an external is more apt to place responsibility on factors beyond his/her control (Trevino, 1986). Additionally, as some research has shown, locus of control may affect moral judgment capacity (Connolly and McCarrey, 1978).

Conversely, individual characteristics may not directly affect the employees' decision to behave ethically, but may moderate their choices as a concern for how their actions are perceived. For example, those high in fear of negative evaluation or high in social desirability (Crown and Marlowe, 1964) may make choices which are more or less ethical, depending on how positively or negatively they believe others will react.

PROPOSITION 2: Morally-unrelated individual differences may augment an individual's willingness to justify or commit an ethically questionable behavior.

Interpersonal level

Although business ethics is very much a socially constructed reality (see Payne and Giacalone, 1990), the interpersonal dynamics which construct that reality remain largely unexplored. What has received little emphasis is a concern for the way that individuals may manipulate others into defining ethically acceptable behavior in ways that are consistent with our personal and organizational goals.

Impression management (Schlenker, 1980), or the controlling of images others have of us, has been identified as a factor in understanding the existence of and lack of punishment for unethical behaviors (Giacalone and Payne, 1987; Payne and Giacalone, 1990). As a tactic, impression management can help individuals to redefine actions and events for others in ways which provide employees with a more favorable image (Schlenker, 1980).

While the ethics of these tactics themselves have been questioned and discussed (see Moberg, 1989), the reality is that individuals and organizations have provided us with repeated examples where impression management has been used to reframe an event in which moral questions can be raised (see Giacalone and Payne, 1987).

On the one hand, the need to create the right impression can serve as a factor which motivates unethical behavior. Thus, employees wishing to create the proper impression in the eyes of their supervisors may engage in any one of many morally questionable actions. They may lie to create a pretense, to mislead, or bluff (see DePaulo *et al.*, 1989), or they may offer distorted (albeit seemingly correct) information to further their political future in the organization (see Moberg, 1989; Schlenker, 1980). Research has shown that even the measurement of ethical attitudes may be contaminated by such impression management concerns (Meehan *et al.*, 1979).

On the other hand, the ability to create the proper impression may also further *promote* unethical behaviors in those who are able to mitigate the impression of engaging in morally questionable behavior. For example, individuals high in self-monitoring (e.g., Snyder, 1974) may be able to control the impression others have of their actions, such that regardless of the action taken, the high self-monitor could either *mitigate* the pejorative effect of an unethical action or *amplify* any beneficial effects resulting from an ethical action.

As Payne and Giacalone (1990) note, use of impression management among employees may therefore provide them some disciplinary relief; such relief is often also a *de facto* rewarding of the questionable behavior, since the immoral behavior may have been financially or politically lucrative for the offender.

PROPOSITION 3a. The ability and/or desire to create a positive impression of oneself or one's performance may result in a choice to engage in unethical behaviors in order to protect, maintain, or enhance the impressions significant others in the organizations may have.

PROPOSITION 3b. The ability to create a positive impression may allow an employee to moderate the perception of an unethical act or capitalize on the benefits of an ethical act, thereby affecting the sanctioning of that act by management.

Organizational level

Corporate culture. At the organizational level, corporate culture provides individuals with an organizational reality within which morally relevant actions are discussed, judged, and sanctioned. As such, one can view organizational culture as the personality of the organization, encompassing a widely shared philosophical direction, institutional attitudes and beliefs, reward structure, and corporate leadership style (Deal and Kennedy, 1982; Smircich, 1983). Institutional attitudes can underlie whole ranges of corporate responses to social problems, such as the percentage of profits allocated to environmental concerns, the organizational response to individual wrongdoing, and diffusion of responsibility for actions affecting society (Stone, 1975).

The type of corporate culture can influence how ethical decisions are made. For example, a democratic culture may encourage members to take responsibility for their actions, while an authoritarian culture may prescribe numerous rules for behavior, which replace individual discretion (Trevino, 1986). Consequently, a democratic culture may enhance the development of ethical decision-making, while an authoritarian culture may suppress its development.

Inasmuch as corporate culture is also composed of a mythology of stories and legends about corporate heroes and their deeds (Deal and Kennedy, 1982), such stories can provide guidance (for better or worse) for conduct in ethical dilemmas. In those cases where the culture has provided various instances of people who, due to ignorance or intent, have bypassed ethical codes (see Brooks, 1989; Molander, 1987, for discussions of ethical codes) or have been rewarded for their questionable actions, the guidance may be in directions that do not meet with an organization's underlying goals.

Moreover, corporate culture provides an "internal rhetoric" — a vocabulary of motives, essentially equivalent to institutionalized impression management strategies, that allow members to legitimize their actions in ethical dilemmas (Stone, 1975).

PROPOSITION 4. Organizational culture, via the transmission of organizational stories and rhetoric, may provide employees with both organizationally sanctioned and/or unsanctioned ways for ethical decision-making.

A subset of corporate culture is organizational climate. The ethical work climate is a function of several variables: the reflection of the larger social-cultural environment in which the organization operates, organizational form (e.g., rules and codes of behavior derive from the need to coordinate and control activities), and the specific history of the firm (Victor and Cullen, 1988). The importance of ethical work climate is that it can identify the key behaviors and attitudes associated with ethical decisions for organizational members who find themselves in ethical dilemmas (Victor and Cullen, 1988).

Corporate climate may also involve the reward structure of the organization. Research shows that members tend toward ethical behaviors, if they are reinforced by the organization, and toward unethical behaviors, if unethical behavior is reinforced by the organization (Trevino *et al.*, 1985).

Opportunity structure. Managers may have a tendency to take advantage of opportunities to be unethical when these situations arise. The finding that managerial behaviors are seen to be more ethical than their beliefs indicates that organizational barriers serve to limit the translation of unethical beliefs into unethical behaviors (Newstrom and Ruch, 1975).

PROPOSITION 5. The organizational opportunity structure may determine the limitations for translating managerial beliefs into ethical behaviors.

Theoretical bases for ethical decision-making

Cognitive moral development

Kohlberg (1973) has devised a popular model of cognitive moral development (CMD) proceeding from childhood into adulthood. Level 1 (pre-conventional) occurs in childhood and consists of two stages: (1) obedience to avoid punishment, and (2) follow rules in one's own interest. Level 2 (conventional) proceeds to Stage 3 mutual expectations (living up to others' expectations) and Stage 4 social accord (fulfill obligations agreed to). Level 3 (principled) occurs in adulthood and consists of Stage 5 social contract (uphold rules to sustain society and individual rights) and Stage 6 universal ethical principles (self-chosen ethics over societal laws).

The three types of behavioral antecedents identified earlier may interact with different stages of moral development, and provide some understanding into how such behavioral antecedents may augment the ethical decision-making of individuals at various stages of development.

Individual differences antecedents may offer some insight as to how CMD level may be modified. In terms of locus of control, an internal would seem to be more likely to rely on his/her own ethical principles and thus operate at Level 3, while an external may find himself more oriented toward whatever environmental constraints are apparent, such as punishment avoidance in Level 1 or others' expectations in Level 2.

In considering the relationship of interpersonal antecedents on CMD, one realizes that managers who practice impression management extensively may be operating at Level 1 or Level 2, or be characterized by a Machiavellian orientation. One perspective is that impression management is an exchange or reciprocal reward process between the impression manager and the target audience (see Schlenker, 1980), Level 1 Stage 2 instrumental exchange in Kohlberg's terms. Further, impression management frequently involves presenting behaviors that the impression manager believes that the target audience wants to see – presenting the stereotypical "good" behavior of Kohlberg's Level 2 Stage 3.

PROPOSITION 6: Inasmuch as their interest is to avoid punishment and/or maximize self-interest, those engaging in extensive impression management may operate at a lower level of CMD.

Finally, organizational antecedents in the form of organizational culture may intentionally or unintentionally influence the selection and retention of employees at particular stages of moral decision-making. Although it is unlikely that such selection or retention is conceptualized in terms of CMD, it may be that the organization selects or rewards those individuals whose moral decision-making level is most consistent with its own culture and management style, or alternatively, that the employee self-selects to stay or leave the organization. An authoritarian culture with its emphasis on rewards and punishments may select and retain managers operating on Level 1, while a participative culture may stress the recruitment and retention of managers on Level 2 or 3.

Ethical work climate, therefore, can be categorized along the lines of Kohlberg's three levels. The egoism level (Kohlberg's Level 1) pertains to self-interest and a focus on profit. The benevolence level (Kohlberg's Level 2) involves friendship, team interest, and a sense of social responsibility. The principle level (Kohlberg's Level 3) involves personal morality and codes of ethics (Victor and Cullen, 1988).

PROPOSITION 7. Organizations may be characterized by a significant number of individuals at higher or lower stages of moral development, directly resulting from organizational selection and retention decisions, and/or employee self-selection.

Expectancy theory

A very different approach would be to examine the motivational process underlying the decision to engage in ethical or unethical behaviors. One motivation theory that lends itself well to such a decisional framework is expectancy theory (Porter and Lawler, 1968). Basically, expectancy theory posits that motivation is a function of the subjective probability that effort will lead to successful behavior (expectancy), that such success will lead to a number of positive and negative outcomes (instrumentality), and finally the combined value of those outcomes (valence). For example, one current ethical problem is insider trading (Werhane, 1989). A stockbroker may use an expectancy framework to decide whether or not to use insider information in stock trades. She may decide to use insider information if she perceives first of all that insider information will produce a high probability of successful stock trades. And she may be further motivated to use insider information if the combined value of the positive outcomes from such trades (commissions, promotions, envy of other traders) outweighs the negative outcomes that might occur (embarrassment if caught, loss of job, and even going to prison).

Expectancy theory can be seen as conceptually similar to utilitarianism. Both approaches assume that the individual employs rational choices in decisions. In both, decisions are defined in terms of the possible consequences that may accrue. And both suffer from the basic problem that the individual must be able to identify and then evaluate all possible consequences of the behavior in order for either system to work correctly (DeGeorge, 1990; Wahba and House, 1976).

The behavioral antecedents we discussed previously may influence how an expectancy theory perspective would motivate ethical behaviors. In terms of individual differences, locus of control has been shown to influence expectancy cognitions (Miner, 1988). Internals, who believe that they can influence their own behavior, may thus perceive a higher expectancy of success for a certain ethical (or unethical) behavior. Thus, a stock broker with an internal locus of control may believe that he is more able to use insider information effectively than an external who sees his/her own success with the information to be largely under the control of others, such as those who pass on the insider information to the broker or even the clients for whom the broker may be trading.

At the interpersonal level, expectancy theory has been used to explain the motivation for individuals to engage in impression management (Leary and Kowalski, 1990; Schlenker, 1980). In essence, individuals are more likely to present those images which have a higher expectancy of success and which result in the acquisition of highly desired (valent) outcomes, such as social and material gains and even self-esteem maintenance.

PROPOSITION 8. Expectancy of success, moderated by individual or interpersonal differences, may motivate individuals to engage in unethical behaviors.

In terms of organizational factors, an authoritarian organizational culture, where the positive outcomes are controlled by and for the benefit of the powerful few at the top, may generate perceptions of low instrumentality (successful behavior will only lead to positive outcomes if you are one of the inner circle of the powerful few). Hence, an authoritarian organization may produce little motivation to pursue either ethical or unethical behaviors in individuals, unless such behaviors are directly desired (and thus institutionally supported) by the powerful few. Thus, individuals may engage in negative behavior, such as unethical behavior, if they believe that powerful individuals in the organization value such negative behavior (Leary and Kowalski, 1990).

PROPOSITION 9. Organizational culture may influence perceptions of instrumentalities for motivation to engage in unethical behaviors.

The reward structure of the organization may also play an important role. An organization that emphasizes contingent rewards (success is directly rewarded by the organization) should produce higher overall instrumentalities in its members (Nadler and Lawler, 1977). In such an organization, these strong instrumentalities that certain behaviors lead directly and consistently to rewards should produce strong motivation toward those ethical (or unethical) behaviors that the organization has rewarded in a contingent fashion in the past. In the insider trading example, a brokerage firm that in the past has strongly and consistently rewarded the use of any type of information in order to produce stock sales will create strong instrumentalities that in turn will motivate its brokers to use insider trading as one of many types of successful (and rewarded) behavior in the future.

Another aspect of the organizational reward structure is the variety of rewards that the firm has to offer. Because the valence of all of the significant outcomes is considered by the individual in the expectancy approach, a larger variety of available organizational rewards should result in a larger combined positive valence for the individual, and thus should theoretically produce stronger motivation for a particular behavior (Nadler and Lawler, 1977). Once again, in the insider trading example, a broker may be more strongly motivated to use insider information if the broker perceives that such use may allow the broker to acquire a larger number of valued rewards (large commissions, promotions, power, status). On the other hand, the broker may not be motivated to use insider trading if he/she perceives that few organizational rewards are available to be gained.

PROPOSITION 10. Implicit or explicit organizational reward structures may influence perceptions of instrumentalities and valences for motivation to engage in unethical behaviors.

Improving ethical decision-making behaviors

Thus far, we have focused on an explanatory approach, identifying a number of antecedent variables and behavioral theories that may be of value in understanding ethical and unethical decision behaviors. One point that we hope cogently stands out is that the variety of unethical behavior that is possible is almost boundless, indicating that behavioral control is as important as behavioral explanation. Therefore, in this section, we will focus a bit by identifying various means of improving ethical decision behaviors. We offer five such means: behavioral modeling, managerial controls, interventions, corporate ethical models, and organizational development.

Behavioral modeling

There is extensive evidence that many behaviors can be changed by behavioral modeling (Manz and Sims, 1981). The basic behavior modeling procedure involves viewing videotapes of actors producing appropriate and inappropriate behaviors, practicing the behaviors with a trainer (e.g., role playing), and receiving taped feedback on the effectiveness of these practiced behaviors. A major advantage of behavioral modeling is that employees can adapt appropriate behaviors to their own styles.

In the area of ethical decision-making, behavioral modeling can present appropriate (and inappropriate) behaviors for various ethical scenarios (Rosenhan *et al.*, 1976). Because top management tends to serve as a critical reference group for ethical beliefs (Newstrom and Ruch, 1975; Payne, 1989; Trevino, 1986), individuals from top management might play the crucial roles in the modeling videotapes.

Behavior modeling may be particularly effective for impression managers, who are adept at developing a broad repertoire of behaviors from which they can draw the appropriate behavior for the situation at hand (Schlenker, 1980). Behavioral modeling can provide positive sets of ethical behaviors for the impression manager to produce when the situation calls for an ethical response. Thus, the use of video tapes, perhaps using top managers as models (which would serve as an important cue) may be particularly effective; impression managers should closely monitor the models they are trying to impress.

Managerial controls

Managerial controls provide yet another way of improving ethical decision-making behaviors. The social audit, which lists the social costs and benefits of organizational decisions, can provide a measure of the influence of corporate responses to social problems. While still in the formative stage for many corporations, the social audit can provide new ways of examining and thinking about possible corporate responses to ethical problems.

The social audit can be an effective means of changing organizational culture toward more ethical responses, introducing a new "vocabulary of motives" (Stone, 1975) which can supplement the existing "internal rhetoric" of the organization culture used by managers to justify responses to ethical dilemmas. Such audits may produce useful directions for managers who wish to control individual and interpersonal factors which might alter the organization's response to ethical dilemmas.

Interventions

Interventions offer yet another technique. Nielson (1989) lists a number of interventions that the individual can make to counter unethical behaviors, such as secretly blowing the whistle, secret or public threats against management, sabotaging an unethical decision, or quietly refraining from implementing an unethical action.

Such interventions, however, have limitations. First, relationships can be damaged, the organization can be unnecessarily hurt, and the encouragement of a "might makes right" climate of operation can occur. Second, the intervention strategy may be more ethically questionable than the initial act itself. Third, some of the interventions may result in retaliation, which, once again, may raise the ethical stakes for the entire organization. Finally, if the underlying antecedents of the unethical actions are not addressed, such interventions are at best a short-term strategy.

Corporate ethical model

Many organizations do not have an explicit or even implicit corporate ethical model for managers to follow, thereby leaving individuals to their own personal, highly varied ethical beliefs. A corporate model, on the other hand, could provide guidance for what are appropriate and inappropriate behaviors. Such a model would best be formulated with the direction of top management and the active participation of employees (Newstrom and Ruch, 1975). Moreover, such a model should identify which behaviors are reinforced and which are punished by the organization (Trevino, 1986).

A corporate ethical model can provide guidance for translating managerial beliefs into ethical behaviors, and can increase motivation to produce ethical behaviors by clarifying for employees the organizational instrumentalities between ethical behaviors and rewards as well as between unethical behaviors and punishment. Additionally, it can further clarify the parameters of acceptable behavior such that selection and retention decisions are made with these parameters in mind.

Organizational development

Organizational development efforts can also aid in the advancement of better ethical decision-making. Workshops can be an effective means for employees and management to confront efforts at justifying employee unethical behaviors, such as theft. Therapy can identify extreme attempts to evade responsibility for these actions and help employees work through these behaviors (Payne, 1989).

Conversely, the changes needed for more effective ethical decision may rest not so much with the group, but with a leader willing to institute the needed changes. Nielson (1989) believes that individual intervention efforts against individuals or the organization have definite limitations. Therefore, managers should attempt to lead ethical organizational change (i.e., managers should attempt to use leadership skills, such as charisma or negotiating a win-win situation for all parties, in order to influence others to build a more ethical organization). Leadership is particularly effective when there can be a win-win situation, when there is sufficient time, where a manager has strong leadership skills, and where the organizational culture is conducive to leadership influence.

Effective leadership can influence several aspects of ethical behaviors. Organizational leaders can model appropriate ethical behaviors and influence motivation to produce ethical behaviors through direct communications to employees, task assignments that can increase expectancies of success, instrumentalities that success leads to rewards, and the valences of those rewards. In addition, they can shape the organizational culture. They can improve the contingencies between ethical behavior and reward in the reward structure, and they can erect barriers to the translation of employee unethical beliefs into unethical behaviors in the organizational opportunity structure. Finally, their actions can provide content for the organizational stories and legends that can serve to enrich the overall ethical direction of the corporate culture.

Conclusion

While we have provided many research propositions, and reviewed some potential strategies for focusing in on ethical problems in organizations, much work remains to be done in this area. We do believe, however, that future research and applications will need to focus more heavily on novel uses of the behavioral science literature in order to fully understand the various facets of ethical behavior at work. Given the developed and extensive theoretical and research foundations of these sciences, business ethics scholars should find themselves entrenched in the behavioral arena for many years to come.

Note

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