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List of Abbreviations

BCE - Before the Common Era

CEO - Chief Executive Officer

CMD - Cognitive Moral Development

CSR - Corporate Social Responsibility

et al. - et alii

etc. - et cetera

fMRI - functional Magnetic Resonance Imaging

i.e. - id est (it is; that is)

FX - Foreign Exchange

US - United States (of America)

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Abstract

An in-depth discussion is provided in this thesis with regard to the importance of business ethics. While some critical opinions towards this subject simply refer to an apparent ineffectiveness of ethical efforts in business conduct, others go further and consider that business and ethics are two completely unrelated terms. This last assumption has enabled the possibility of using aspects of business ethics as window-dressing instruments, with some companies trying to improve their image, while in the worst case, corporations going as far as using business ethics in order to hide their deceptive and fraudulent nature.

This thesis was written under the premise that business ethics can be beneficial for business organizations and accordingly for society as a whole. While the plentiful of corporate scandals of the past decades can be viewed as a strong indicator for the ineffectiveness of business ethics, the true problem is somewhat more complicated. Firstly, the academic field of business ethics is constrained by several serious problems. The most obvious, and probably the most serious problem, is the lack of unity. Practically every area of business ethics, be it ethical decision making, business ethics education, or corporate ethics programmes, lacks a consistent and clear approach. The problem is further complicated by questionable methods of academic research in business ethics, where it seems that sometimes it is more important to have some vague results published, than trying to find relevant and practical results. The second part of this problem is constituted by the personal choices some individuals make. That is, the carrying out of fraudulent and deceptive acts through corporate conduct, ultimately in order to get more money, or more power. Thus, it seems that business ethics is not taken seriously enough, neither by business professionals, nor by business ethicists themselves.

An effective implementation of business ethics requires the subject to be taken seriously. Moreover, implementing business ethics is far from being an easy task. The proposition provided in this thesis is that, if business ethics is indeed taken seriously, the subject as a whole can be viewed as a self-sustaining system, which will continuously improve itself and will therefore continuously improve the business environment and implicitly society as well.

Zusammenfassung

Diese Arbeit stellt eine tiefgründige Diskussion über die Bedeutung der Wirtschaftsethik bereit. Während sich einige kritische Meinungen über dieses Fachgebiet nur auf die scheinbare Wirkungslosigkeit der ethischen Bemühungen in der Wirtschaft stützen, gehen andere weiter und berücksichtigen, dass Wirtschaft und Ethik zwei komplett verschiedene Begriffe sind. Diese letzte Annahme lässt zu, dass Wirtschaftsethik von manchen Firmen nur zum Window-Dressing benutzt wird, um ihr Image zu verbessern. Im schlimmsten Fall geht es so weit, dass Wirtschaftsethik missbraucht wird, um betrügerische Handlungen zu verstecken.

Diese Arbeit wurde unter der Prämisse geschrieben, dass Wirtschaftsethik sehr wohl einen Nutzen für Unternehmen hat und dementsprechend auch für die Gesellschaft. Während die zahlreichen Wirtschaftsskandale der letzten Jahrzehnte als deutlicher Indikator für die Unwirksamkeit der Wirtschaftsethik gelten können, ist das wahre Problem um einiges komplizierter. Zum einen ist das akademische Feld der Wirtschaftsethik durch verschiedene Probleme beeinträchtigt. Das offensichtlichste und vielleicht schwierigste Problem ist das Fehlen von Einheitlichkeit. Praktisch jedem Bereich der Wirtschaftsethik, seien es ethische Entscheidungsfindung, die Lehre der Wirtschaftsethik, oder Ethikprogramme von Unternehmen, fehlt eine konsistente und klare Herangehensweise. Das Problem wird noch komplizierter dadurch, dass fragwürdige Methoden in der Wirtschaftsethik zur Anwendung kommen, die den Anschein erwecken, dass es wichtiger ist ungefähre Ergebnisse zu publizieren, als begründete und nützliche Erkenntnisse zu untersuchen. Zum anderen fußt das Problem auf persönliche Entscheidungen einiger Individuen. Insbesondere das Hervorbringen von betrügerischen Handlungen in Unternehmertätigkeiten, mit dem Ziel mehr Geld oder mehr Macht zu bekommen. Daher erscheint Wirtschaftsethik weder im unternehmerischen noch im akademischen Bereich ernst genug genommen zu werden.

Zur wirkungsvollen Implementierung von Wirtschaftsethik ist es nötig, dass das Fach ernstgenommen wird. Außerdem ist das Implementieren von Wirtschaftsethik alles andere als eine einfache Aufgabe. Die Empfehlung die in dieser Arbeit gegeben wird ist, dass wenn Wirtschaftsethik tatsächlich ernstgenommen wird, es ein sich selbsterhaltendes System ist, welches stetig weiter verbessert und deshalb auch kontinuierlich das Wirtschaftsumfeld und implizit die Gesellschaft verbessert.

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1. Introduction

The problem of justice has been troubling philosophers' minds for millennia. In his *Republic*, Plato tried to define justice by looking at what it would take to build a just city. Justice was found to be the rational balance that holds together the three elements which make up the city: wisdom, courage and moderation. A couple of thousand years later, John Rawls imagined justice as a figurative contract, signed by several hypothetical individuals, who were masked under the *veil of ignorance*. So, what does all of this have to do with business? For instance, one could have a look at the plenitude of corporate scandals and financial wrongdoings of the past decades and reasonably conclude, that in the business world, justice seems to still only exist as thought experiments. Moving on to business ethics, many seem to have taken this situation for granted and have come to consider that business and ethics have nothing to do with one another. Indeed, several authors (Shepard et al., 1991; Werhane & Freeman, 1999; Crane & Matten, 2007) claim that business ethics is quite often being perceived as representing an oxymoron. Should then one simply accept this condition that business and ethics have no place together and that business ethics is impractical? Or even worse, that business ethics is merely an instrument for window dressing, a summation of carefully chosen words, with which some corporations can hide a hideous truth?

The activity of business is a significant aspect of contemporary society, at the very least in the sense that the well-being of the world's population is in part dependent on how business is being conducted. Therefore, the effort of trying to minimize wrongdoing in business conduct as well as the assuring that economic activities are carried out with transparency and under fair circumstances, are essential if one strives for a continuous improvement of society's well-being. Assuming that business ethics is one tool which can be used for achieving this goal, the research problem of this thesis can be formulated as follows: How could aspects of business ethics be applied in practical ways, in order to achieve a moral improvement for the activity of business? Based on information gathered mostly from academic literature, the present thesis will offer an in-depth look at the subject of business ethics and will try to shed some light into its dimly lit realm. Before discussing several areas where aspects of business ethics can be practically applied, the first part of this thesis will try to provide a clear understanding for what this subject is actually all about.

The thesis is structured as follows. After the current introduction, the significance of business ethics will be outlined in chapter 2. Theoretical aspects will be discussed in chapters 4 and 5. The former will include an overview of moral philosophical concepts, while the latter will sketch the psychological findings which try to explain ethical decision making. The second part of this thesis will outline several aspects where business ethics can be applied in practical situations and begins with the topic of education in chapter 5. Formal ethics measures taken by business organizations will be discussed in chapter 6, while the concept of organizational culture and its relationship with business ethics will constitute chapter 7. Based on this body of theory, a holistic view of business ethics will represent a proposition for implementation, before concluding the thesis in chapter 8.

2. The (Questioned) Relevance of Business Ethics

To start with a small problem, one could have a look at the origins of business ethics. For instance, Marcoux (2006: 50) labels the dating for the birth of business ethics as inexact and mentions that “[b]usiness ethics is either ancient or very new.” Marcoux (2006) elaborates on this point and provides examples from antiquity, such as the Code of Hammurabi from around the 1700s BCE or Aristotle’s *Politics* from the 300s BCE. Among various subjects, the contents of both texts also address issues related to fair rules of commerce. However, Marcoux (2006) adds that as a true academic discipline, business ethics is only four decades old. Similarly, Green and Donovan (2010) trace the emergence of what is today understood as business ethics to a series of discussions held during the early 1970s in the United States. These discussions were the result of a series of controversial events, such as the Vietnam War, the Watergate scandal, foreign investment in South Africa’s apartheid regime, or the racial conflict in the US. Lennerfors (2013) dates the beginning of business ethics around the 1950s and mentions that during that time a series of discussions related to the social responsibility of businessmen have taken place, but considers that only during the 1980s did business ethics become an academic discipline.

2.1 Understanding Business Ethics

One could indeed argue that the debate regarding the exact time when business ethics came into existence is not really practical if at all relevant. Perhaps more important is to know and understand what the discipline actually is, but also what it is not. For instance, Marcoux (2006: 51) points out that a “dizzying array of projects is pursued under the rubric of business ethics”, implying a serious lack of unity within the discipline and adds that apparently the only thing business ethicists have in common is a belief, that whatever it is they are researching is business ethics. However after a closer look, some themes do seem to be reoccurring, among which Marcoux (2006) lists the study of organizational life and the role played by management in shaping it.

To begin with several definitions, business ethics is a form of applied ethics and can be understood as “moral philosophy in the context of a life lived in business and commerce” (Wines 2008: 488). Or in other words, “[b]usiness ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed” (Crane and Matten, 2007: 5). Moreover, the purpose of business ethics is to provide “answers as to *why* certain [business] decisions should be evaluated as ethical or unethical, or right or wrong” (Crane & Matten, 2007: 4). Hence, in order to understand what business ethics is, there is a need to understand the two terms that constitute its nomenclature. For now, only the meaning of *business* will be discussed, while the latter, *ethics* will be dealt with in the next chapter.

Business is a vital component of organized society, in the sense that most individuals purchase different goods and services in order to survive and live in comfort. Moreover, these individuals will probably want to have a job in order to be able to pay for these goods. These jobs are in effect composing the business world, which itself enables the existence and distribution of goods and services. Therefore, business is not a separate, but an integral part of contemporary society (De George, 1995). Brenkert and Beauchamp (2010) add that the activity of business has a significant influence on all levels of society and can create some of the most difficult ethical issues one can consider, such as the conflict between the self-interest and the interest of others, manipulation and cooperation, honesty and deception, or the responsibility for future generations. Ferrell and colleagues (2005) also include fraud and discrimination, but the list could certainly continue.

Despite this however, business ethics is sometimes regarded as having little importance, in philosophical circles (Brenkert & Beauchamp, 2010), in the business community (Hosmer, 1984), as well as in the general public (De George, 1995). For instance Brenkert and Beauchamp (2010) mention that one reason why business ethics has not received the same attention as medical or legal ethics is that unlike the latter two, business is not considered to be a true profession. However, Marcoux (2006) views this problem differently. Using another terminology, he considers that similar to medicine and law, business is a *practice*. In trying to explain what it means to do business, Marcoux (2006) roughly describes the concept as an entrepreneurial practice which is concerned with identifying and executing transactions of various kinds. Referring to medical and legal ethics, where the emphasis is not on hospital administration and law office management respectively, he points to a difference between business ethics and organizational ethics. Hence, Marcoux (2006) believes that the focus of business ethics should be on how to *conduct* business and not on how to *organize* the practice of business, implying that the concentration should rather be on fair pricing methods. As already mentioned, Marcoux (2006, 2008) presumes that one major problem with business ethics is its wide spectrum of projects and perhaps by proposing this division, he is trying to achieve a clearer purpose for the discipline. However, it should be quite clear that the organizational aspects of business, which are of concern in business ethics, are far from being related to the actual administration of an office space. The main focus in this thesis is indeed on organizational ethics, but nevertheless, the term *business ethics* will be mostly used.

Moreover, Brenkert and Beauchamp (2010) state that the variable of ethics is not viewed as a serious constraint in business conduct and that there is a general belief that there is no place for ethics in business. According to Crane and Matten (2007), this is the reason why business ethics has been identified as an oxymoron, namely due to the belief that either ethics cannot coexist with business, or in the best case, business is amoral, meaning outside the realm of moral considerations. Labelling this idea as “the Myth of Amoral Business”, De George (1995: 5) claims that many individuals believe that ethical reflections are unsuitable with business, that business and ethics are two unrelated concepts and furthermore, that business is only concerned with providing goods and services in order to generate profits.

Within the academic field, among the main criticisms of business ethics are opinions such as business ethics being too obscure and mainly reactive (Lennerfors, 2013), or business ethics being irrelevant for managers, because it fails to provide concrete support in ambiguous conflicts of right and wrong (Stark, 1993). Bishop (2013: 635) also views business ethics as a

rather responsive measure to various wrongdoings and considers that the discipline “must function as more than a guide [and that it should] be preventive in nature and determine a correct course of action for individuals and organizations.”

2.2 The Principle-Agent Problem and the “Friedman / Freeman Debate”

Marcoux (2006) claims that one of the most significant theoretical frameworks to originate from business ethics is Edward Freeman’s stakeholder theory. Indeed, Green and Donovan (2010) mention that stakeholder theory unifies some of the most common ideas and objectives in the field of business ethics. This view however, has sparked one of the most disputed debates within this academic field - the so called Friedman / Freeman debate (Freeman, 2008; Green & Donovan, 2010). Before outlining these two perspectives however, there is a need to briefly clarify the principle-agent problem.

2.2.1 Agency Theory and the Principle-Agent Problem

According to Eisenhardt (1989), agency theory has its origins in a series of discussions held among economists during the 1960s and early 1970s, where risk sharing has been described as a problem, arising when the cooperating parties have different attitudes towards risk. Agency theory has expanded the focus from risk sharing to problems occurring due to different *goals* set by the cooperating partners.

Conceptually, the theory rests on the agency relationship, where one party, known as principal, delegates work to another party, known as agent. Thus, the purpose of agency theory is to resolve two possible problems: first, the agency problem, which can occur when the requirements and goals of the principal and agent are in conflict; and second, the problem of risk sharing, which can take place if the principal and agent have different approaches towards risk. The theory uses a figurative contract to describe the relationship between the two parties. Therefore, this unit of analysis highlights the main usage of agency theory, which is to find the most adequate contract, governing the relationship between principal and agent (Eisenhardt, 1989). The most common application of agency theory in a business context implies the

relationship between shareholders (principals) and managers (agents), a relationship where the main duty assigned by the principal to the agent, is to maximize the market value (share price) of the firm (Shankman, 1999).

2.2.2 Milton Friedman and Stockholder Theory

In a by now famous article published in *The New York Times Magazine*, economist Milton Friedman (1970) argued that “the only social responsibility of business is to increase its profits”. Friedman basically takes the agency point of view and considers that, as agents, managers have a sole responsibility to their principals, represented by the shareholders who own the company. That responsibility is, according to Friedman, to do business in alignment with the desires of shareholders, meaning, to raise profits to as much as possible.

Friedman continues his argument and claims that, as an individual, any manager has the right to pursue any personal responsibility towards various causes and institutions ranging from clubs to one’s own country. This however is a voluntary action and in pursuing such aims, the individual (manager) becomes the principle of his or her own desires. In other words, pursuing personal responsibilities, the individual will use its own resources to achieve such goals and not the resources of others devoted for other purposes. Hence, Friedman states that to pursue goals of social responsibility in the capacity of a manager (agent), would mean to act against the interest of the shareholder (principle). It is important to note though, that Friedman’s point of view implies that the *true* interest of shareholders is to maximize profits and accordingly, also the market value of the company. He does not explicitly say that shareholders *cannot have other* interests as well, but he assumes that they would rather pursue such interests individually and not through the companies they own. What he does say, is that those who believe that businesses have other responsibilities beyond generating profits are in fact promoting socialism. However, it is well beyond the scope of this thesis to attack or defend any political ideology whatsoever. Perhaps also to note is the fact that in 1970, the year when Friedman wrote the article, the Cold War was still ongoing.

Perhaps even more important to note is the detail that, already in the first paragraphs of his article, Friedman (1970) stresses that the responsibility of generating profits has to be pursued “while conforming to [the] basic rules of society, both those embodied in the law and those

embodied in ethical custom.” Moreover, the final sentence of the article is as follows: “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits as long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”

As stated at the beginning of this chapter, it is not only important to understand what business ethics is, but also what it is not. In other words, business ethics is not corporate social responsibility, although the concept of CSR can be said to be part of business ethics (Ferrell et al., 2005). It appears though, that Friedman is not really an opponent of ethics. Perhaps he has been misunderstood, or taken out of context, because there seems to be a narrow view, that the only statement he made was that corporations have one single role – to maximize profits. In effect, Friedman is right. Besides respecting the law and basic ethical norms, a corporation cannot have other obligations towards society. CSR is an option and not an obligation. Certainly, this should not be interpreted as to discredit CSR altogether. Voluntary efforts taken by business organizations to help the communities where they operate can indeed be viewed as laudable deeds. However, such acts can easily slip to the other side and be merely used for purposes of improving the company image. For instance in March 2014, the Coca Cola Company launched a campaign, called *Hello Happiness*, where migrant workers in Dubai, were able to make long-distance phone calls to their families, after purchasing a bottle of Coca Cola. The company installed five phone booths which accepted Coca Cola bottle caps for a three minute international call. The price of a bottle was around 0.54 US \$, while the normal tariff for one a one minute international call was around 1 US \$. However, after only one month, but not before making a video¹ of the campaign, the company removed the phone booths (Vara, 2014). Hence, one could question the true motives behind this campaign. Was Coca Cola really interested in helping these workers and trying to spread the message of their working conditions? Or was this campaign merely a marketing gimmick?

2.2.3 Edward Freeman and Stakeholder Theory

Edward Freeman initially developed stakeholder theory as a response to stockholder theory and argued, that having responsibilities only to shareholders is not enough (Bowie, 2010).

¹ In October 2015, the official video was available at: <https://youtu.be/zlA9tXYxD8g>

Green and Donovan (2010: 22) add that the theory was first published in 1984 and they provide Freeman's original definition for the term stakeholder: "any group or individual who can affect or is affected by the achievement of the firm's objectives."

Freeman (2010: 7) outlines the theory as follows. He understands business "as a set of relationships among groups which have a stake in the activities that make up the business." These groups consist of communities, customers, suppliers, employees, managers, and financiers – shareholders, bondholders, banks, or other financial institutions. The main reason for the conflict between the stockholder theory and stakeholder theory lies in the apparent fact that, on some occasions, "the interests of customers, suppliers, communities and employees, must be traded off against the interests of financiers" (Freeman, 2010: 7). However, Freeman (2010: 7) considers the belief, that at any given time one particular stakeholder will be given priority, to be "deeply flawed." Hence, he stresses (2010: 7) that what stakeholder theory actually claims is that the responsibility of executives is "to manage and shape these relationships" and to keep a balance over the interests of the various groups. In fact, Freeman (2010) understands this to be the very purpose of capitalism, namely to foster these relationships between stakeholders, so that on the long run everyone wins. In other words, in case one stakeholder group believes that its interests are not being properly addressed, it can either search for another network, or create a new network in a better way (Freeman, 2010). Furthermore, Freeman (2010) claims that the interests of all stakeholders are tied together and that ignoring any particular group is disadvantageous for all in the long run. He also admits, that it is not an easy task to accommodate the needs of all stakeholders, much easier being to trade off one interest against another. Nevertheless, Freeman (2010: 9) concludes, that the "primary responsibility of the executive is to create as much value as possible for stakeholders [...], without resorting to trade-offs."

Not so long ago, in a collaborative paper published in *Business Ethics Quarterly*, Freeman himself (2008) argues for an end of the so called Friedman / Freeman debate. He begins his essay by asserting that those who read Friedman correctly, will understand that he in fact is also a stakeholder theorist.

In order to illustrate this argument, Freeman (2008) outlines the following points which, next to the balancing of all interests, represent stakeholder theory. The separation fallacy implies that it is not beneficial to separate business from ethics. Similarly, the integration thesis suggests that there is no sense to talk about business without talking about ethics, and vice

versa. The integration thesis stems from the idea that there is no sense in talking about business or ethics without talking about human beings. As already stated, Freeman (2010) views business as a network of relationships between various people. A third idea is the responsibility principle, which implies that the purpose of ethics is for humans to be able to justify their lives to themselves as well as to others. The final point of stakeholder theory is the open question argument. What this means, is that before making a decision, a manager should ask himself / herself the following questions: Who is going to be harmed / benefited by the resulting action? Whose rights are considered and whose are not? And finally, as what kind of person should the decision maker perceive of himself / herself if making the decision in a particular way?

Freeman (2008: 165) believes, that ultimately it is a matter of personal interpretation how one understands what Friedman actually meant by “without deception or fraud and subject to ethical custom.” His opinion however is that Friedman’s statement of maximizing profits, as long as legal and ethical norms are respected, “sounds a lot like the arguments [Freeman has] given for stakeholder theory (Freeman, 2008: 165).”

2.3 Executive Compensation

Whether the levels of compensation received by chief executive officers and other executive directors of large corporations are fair, is another reason for debate (De George, 1995; Ferrell et al., 2005; Crane & Matten, 2007; Boatright, 2010). Crane and Matten (2007) claim that the main reason why these salary packages are very high is related to the agency problem. Indeed, Boatright (2010) agrees and mentions that there are two economic reasons behind executive compensation, one being the agency problem or lining up the interests of the shareholders with those of the executives. The most common solution for solving this problem was found in including stock options in the salary package, which is linked to the actual performance of the company (Crane & Mattetten, 2007; Boatright, 2010). Because a significant part of their remuneration consists of company stock, it is assumed that executives will have a stronger incentive to maximize its value. However, the salary package should be structured in such a way as to minimize the incentive for short-term gains at the cost of unethical behaviour (Ferrell et al., 2005).

The other economic reason is related to a hypothetical market of executives. In other words, similar to the general market principles, there is a supply and a demand for executive directors. For instance, Ferrell and colleagues (2005) say that on the one hand, there are not enough people qualified or willing to take the responsibility of an executive, while on the other, companies believe that the only way of keeping good executives from leaving the company, is by offering large remuneration packages.

Moreover, Boatright (2010) states that this issue is further complicated by other variables. He claims that in order to justify executive pay, one would also have to take into account the general economic system as well as the distribution of income and wealth in the respective country. De George (1995) adds that the other extreme of this whole discussion, namely the lowest paid wage, also needs to be considered. One possibility of keeping executive pay under control is taxation (De George, 1995; Boatright, 2010). However, this argument can only be valid under the consideration of a fair and just fiscal policy, which in effect is leading to a different, but still difficult debate.

2.4 Corporate Scandals and White-Collar Crime

One reason behind the importance of business ethics lies in the fact that the consequences from unethical behaviour by business agents are not limited to the corporation or its immediate stakeholders, but they can also have a negative effect on the wellbeing of society (Schwartz, 2001). To illustrate this point, Schwartz (2001) enumerates several examples where deaths of civilians have been caused by managerial decisions: the refusal of the Ford Motor Company to recall its faulty Pinto model, the asbestos case of Johns-Manville, or the Union Carbide disaster in Bhopal. These and other acts of wrongdoing can be labelled as white-collar crime, which according to Balsmeier and Kelly (1996: 143) are deeds “committed by person(s) of high status in the pursuit of their regular occupational activities.” Common examples include embezzlement, fraud, bribery, or theft. The most unusual characteristic about these acts is the nature of offenders. Balsmeier and Kelly (1996) list businessmen, politicians, government employees, or doctors as examples and add that such individuals live ordinary lives and are generally respected and trusted citizens. Moreover, not only do these individuals fail to perceive of themselves as criminals, but due to their social status, it is also difficult for the general public to view them as such (Balsmeier & Kelly, 1996).

Notorious examples of white collar crime are the various accounting scandals, where basically companies try to falsify financial statements in order to boost the stock price, and last but not least, the current financial crisis and the resulting bailing out of financial institutions by governments using tax-payers money (Lewis et al., 2010).

By now the word “Enron” is almost a synonym for corruption. For example, Sims and Brinkmann (2003: 243) claim that when most people hear the name of the former energy conglomerate, they associate it with “corruption on a colossal scale”, where already highly paid executives attempted to cash in some more millions of dollars “while carelessly eroding the life-savings of thousands of unwitting employees.” They add that *Enron Ethics* has become an ironic expression, which illustrates a contradiction between words and facts. What makes the case of Enron stand out is that, prior to its accounting scandal and resulting bankruptcy, the company was not only regarded as highly successful and innovative from a purely managerial and financial perspective (Kulik, 2005), but also “as a paragon of corporate responsibility and ethics – successful, driven, focused, philanthropic and environmentally responsible” (Sims and Brinkmann 2003: 243).

According to Henderson and colleagues (2008) Enron grew rapidly during the second half of the 1990s. For instance, its operating income nearly tripled between 1996 and 2000 from 493 million US \$ to 1.266 billion US \$. However, had the financial reporting been accurate, Enron’s earnings between 1997 and 2000 would have been 591 million US \$ lower, while its liabilities in the year 2000 by 628 million US \$ higher. Henderson et al. (2008) add that Enron’s stock reached an all-time high in August 2000 trading at a price of 90.56 US \$ (at this time the price was reflecting the public’s perception of Enron’s image), while by the end of November 2001, after public perceptions were corresponding to reality, the stock price dropped to 0.26 US \$. Besides Enron, other well-known examples include WorldCom and Tyco (Henderson et al., 2008), but also companies outside the US, such as Parmalat in Italy (Clegg et al., 2007), or the more recent cases in Japan of Olympus and Toshiba (Soble, 2015).

Koehn (2005) raises an interesting point regarding a possible conflict between the interests of shareholders and a moral perspective for a company. She mentions that in the US under the Sarbanes-Oxley act, the accuracy of a company’s financial results must be certified by the CEO. The problem is, that when executives are indeed prosecuted due to misrepresented earnings, it will be the shareholders who will pay the bill. Koehn (2005) provides the example of Xerox, a company which was fined 22 million US \$ by the Securities and Exchange

Commission for illegal accounting practices, a case in which the most part of the fine and the legal fees for the accused executives, have been paid with shareholder money. In a *New York Times* article related to this case, Morgenson (2003) mentions that out of the 22 million US \$ fine, \$3 million were paid by the executives accused in the case. The remaining 19 million US \$, the legal fees as well as the losses incurred on the stock market, were all left to the shareholders (Morgenson, 2003).

To better illustrate the effect of unethical behaviour on the stock price of a company, one could look at the recent case of the Japanese company Toshiba. Figure 1 shows the hourly evolution, for a period of 1 year (August, 2014 – July, 2015), of the company's stock price (orange line; in Japanese Yen) against the Japanese benchmark index Nikkei 225 (purple line) of which Toshiba is a constituent. Beneath the stock price, the green frequency graph displays the volume of traded Toshiba stocks.

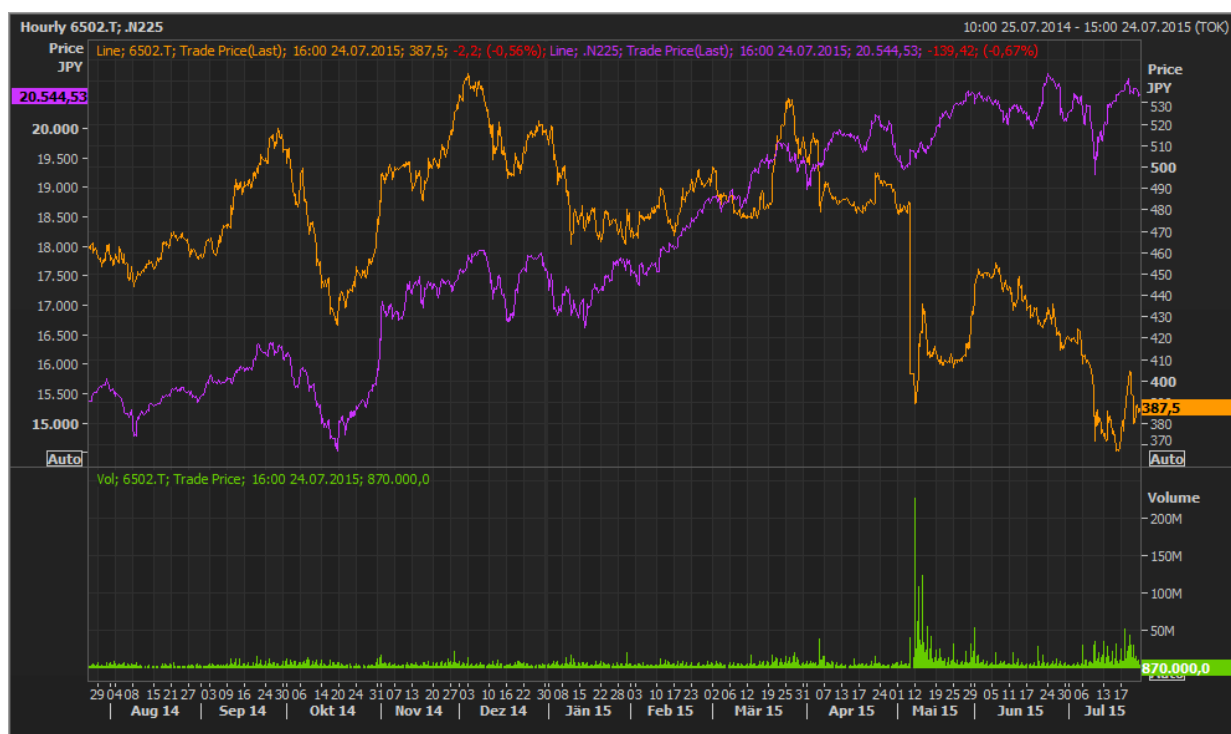


Figure 1: One year evolution of Toshiba stock price, compared with the Japanese benchmark index Nikkei 225 (Chart compiled by the author using Thomson Reuters Eikon)

The company misrepresented its earnings by more than 1.2 billion US \$ since 2008. The culprits claimed that accounting shortcuts were the only possibility to reach the targets set by superiors in the aftermath of the financial crisis (Soble, 2015). While not as extreme as Enron, it is clear from Figure 1 that such actions are not beneficial for stockholders. Prior to the report being published, Toshiba's share price was moving quite positively correlated to the Nikkei

225 index. The overstatement of profits has been made public around mid-May 2015. The frequency graph clearly shows a significant increase in transactions of Toshiba stock during that same period. Comparing the frequency graph with the sharp decrease in price illustrates the strong sell-off which occurred once the public found out about the company's misrepresented earnings. Furthermore, it is also clear from the chart, that there were no significant overall market movements during that period. The Nikkei 225 index continued its normal upward trend, demonstrating that the sharp decrease in Toshiba's market value was an isolated case.

One could further argue, that there is a significant number of investors who hold shares out of pure speculative reasons and without having a genuine interest in the company. Additionally, it is also reasonable to assume, that the majority of investors who sold off in the aftermath of the accounting irregularity, was composed by such shareholders. On the one hand, this idea can be viewed as countering the strict stockholder view – not all individuals who possess shares, have a true interest in the company but strictly in its stock price. On the other hand, the ones who do have an actual interest in the company will probably also hold on to their shares, meaning that they will have to support the loss incurred due to the strong sell-off. It is thus safe to declare, that this is not the way Friedman imagined stockholder theory.

2.5 The Importance of Business Ethics

According to what has been discussed thus far, the motivation behind choosing the topic of business ethics for the current thesis can be viewed twofold. Firstly, this thesis was written under the consideration that the general way in which business is being conducted in our society is in many cases wrong, at least from a moral point of view. Furthermore, as the thesis progresses it will be quite clear that the discipline of business ethics itself is plagued by a significant number of problems. Therefore, the second point behind the motivation of writing this thesis is an attempt at providing some clarity and a better understanding of what business ethics is and how it could be applied in a useful and practical way. Finally, due to the globalized nature of our economy, the effects of business behaviour can reach all parts of the globe and impact the lives of ordinary citizens, as in the case of the financial crisis of the late 2000s, which is only one event that should stand as evidence for the importance of business ethics.

There are certain areas of business activities which raise serious and even more difficult dilemmas. Examples include child labour or forced labour in general. This topic is indeed quite complex and it certainly cannot be covered in such a thesis, let alone in one paragraph, but nevertheless, it would not seem right to completely ignore this type of problem when discussing the morality of (international) business. One difficulty with these situations is the debate whether said children (or adult workers) are better or worse off than without the work they are doing. Furthermore, whether these problems are to be blamed on the companies for which ultimately this type of work is being carried out, or on the governments of the countries where such work takes place, is another difficult question. One can argue though, that companies which choose to outsource economic activities in developing countries, do this due to cost reduction reasons. Accordingly one can assume, that these companies will at least suspect, that part of the reason for the availability of low wages, is due to the existence of such working conditions (Kolk & van Tulder, 2002). The problem is further complicated by cultural relativism. If the culture of one country accepts child labour, how and why does a different country with a different culture have the (moral) authority to dismiss this practice? Instead of having an easy answer, this question leads to different, but not less difficult, questions, namely whether global economic inequalities are the main reason behind the acceptance of such working conditions in some countries and furthermore, why are there such strong economic differences between countries in the first place, and who is to take blame or responsibility for this? Do developed countries – or companies from these countries – have a moral responsibility with regard to this issue, at least in the case where they are conducting business activities in lesser developed countries?

Looking at all the aforementioned problems, clearly indicates that to say there is no place for ethical considerations in business is at the very least an ignorant point of view. Not only are there many instances where concrete legal regulations are being misacted, but these instances raise difficult questions, which the law alone cannot answer.

Unfortunately, the mentioning of law raises a further possibility to question the relevance of business ethics. That is, why is there a need for business ethics, if there already is a legal system, comprising various laws that regulate behaviour? Crane and Matten (2007) provide an answer to this question and offer the following simple examples to demonstrate that an act which is unethical does not necessarily need to also be illegal, or vice versa. On the one hand, there is no law prohibiting an individual to being unfaithful to his or her girlfriend / boyfriend, while a majority would agree that this behaviour is unethical. On the other hand, traffic laws establish

whether cars should be driven on the right or left side of the road. While this indeed is meant to prevent a traffic chaos, one cannot claim that this decision is based on an ethical principle.

This idea can be even demonstrated mathematically by using set theory. Let set 1 comprise all objects contained in ethics and set 2 all objects contained in law. Then, one could demonstrate that the two sets are not equivalent by comparing their union (every single object from both set 1 and set 2) with their intersection (only those objects which are contained in set 1 as well as in set 2).

Furthermore, Lewis and colleagues (2010), point out that several accounting scandals and most significantly the ongoing banking crisis, are not necessarily the result of illegal practices. They say that prior to the financial collapse of 2008 there were no regulations with a significant impact on the debt to equity ratio of financial institutions. Thus, it was not illegal for Goldman Sachs to use approximately 40 billion US \$ of equity for sustaining assets valued at approximately 1.1 trillion US \$. Similarly, the leverage of Merrill Lynch was supporting roughly 1 trillion US \$ of assets on equity of around 30 billion US \$.

As stated, it is ultimately a matter of personal interpretation how one understands what Friedman (1970) meant by respecting ethical values when pursuing the activity of business. But it is reasonable to assume, that even if one rejects the idea that managers have responsibilities to groups other than shareholders, acts like the aforementioned accounting scandals clearly violate stockholder theory itself. Furthermore, beyond just questioning the justness of executive compensation (which itself is not an easy question), one also needs to question why individuals who already have a vast fortune and an assured retirement plan (Boatright, 2010), sometimes act like the executives at Enron, or the FX brokers involved in the Libor scandal² did (Bray, 2015). Even more complicated perhaps is the issue of child labour. Furthermore, the very issue of profit is one which can instigate moral debates (Camenisch, 1987; Schepers, 2003). Undoubtedly, these are all topics which require moral reflection.

² Six brokers from several of the world's biggest banks were found guilty of manipulating the Libor rate, a global benchmark interest rate that has an effect on how consumers and companies borrow money across the world. All pleaded not guilty and denied any wrongdoing (Bray, 2015).

3. Moral Philosophy: Ethical Theory and Business Ethics

After having discussed the research problem and presented a number of issues with the corporate and economic environments, in this chapter, as well as in the next, the focus will be on theory. The present chapter will provide a brief outline of the most widely used theories of moral philosophy in business ethics, while the next will offer an overview of models dealing with the process of ethical decision making.

Whether moral theories are relevant or not in business ethics, is an ongoing discussion between scholars and academics (Bartlett, 2003) and the answer to this question might also depend on an individual's personal point of view. No significant effort will be given in this thesis with regard to this debate, with only a minor mention to be provided in a later chapter about business ethics and education. Nevertheless, whether moral theory is relevant or not in business ethics, several concepts and terminologies will be mentioned throughout this thesis and therefore, a brief description will be provided for each of them in the current chapter. Crane and Matten (2007) provide a short explanation for the relevance of moral theory and refer to the general idea that individuals are constantly faced with situations where values of right and wrong are in conflict with their obligations. According to them, these situations range from relatively simple scenarios where one would have to lie to protect someone else's feelings, to the complex decisions which need to be taken in daily business activities. Crane and Matten (2007) consider that, particularly in the case of business decision making, there is a need to have a rational argument, so that decisions can be justified or explained and that one such argument can be made on the basis of moral theories. Brenkert and Beauchamp (2010) consider that moral philosophical principles like justice, utility, rights, obligations, or personal virtues can provide a better understanding of moral issues and can help individuals engage in reflection when faced with ambiguous situations in various business activities. Similarly, de Colle and Werhane (2008: 751) assume that ethical theories can be used to explain moral motivation. In other words, by looking at the arguments these theories offer to determine the moral value of an action, one might find it easier to answer the question "*Why should I do the right thing?*" Before moving on to the actual overview of theories though, a small detour needs to be made, in order to discuss yet another problem.

3.1 The Problem with Defining Ethics and Morality

Some authors (Tenbrunsel & Smith-Crowe, 2008) have criticized the lack of a proper definition for the concept of morality within the field of business ethics. As it will be later shown, Ferrell and Gresham (1985), who developed one of the first models of ethical decision making with a business focus, intentionally chose not to go into the trouble of formulating such a definition. Similarly, John Rawls (2005), whose ethical theory will be outlined later in this chapter, also avoided a direct definition for the concept of justice, instead implying that, viewed as a whole, his theory could be used as an explanation. Indeed, even here in this thesis, after an introduction and one chapter, the concepts of ethics and morality have not yet been defined. However, alongside a number of problems and challenges with the corporate and economic environments, the purpose of business ethics has been outlined. Therefore, the reader would be able to understand, at least intuitively, what the general enquiry of this discipline is about.

One important point to understand is that ethical theory is separated from *applied* ethics. It has already been mentioned that business ethics is a branch of applied ethics, similar with medical or legal ethics. As its name suggests, applied ethics “is concerned with answering *specific* questions of right and wrong [...]. Applied ethics seeks generality in its answers, but *it does not address theoretical questions* about, for instance, the meanings of highly general moral terms” (Audi, 2010: 46, emphasis added).

Hence, it is not in the purpose of applied ethics to go into abstract discussions regarding the true meaning of *good* – this is better to be left to moral philosophers to deal with. In fact, in the field of philosophy one can distinguish between meta-ethics and normative ethics. The first is the discipline where one would have to go if looking for a universal definition of the good (Audi, 2010). The topic of normative ethics can be said to include the theories which will be later described in this chapter. Moreover, there are many debates between moral philosophers, on how to properly define morality, whether morality is a result of reason alone, or whether morality is innate – to name just a few examples (Frankena, 1966). If one looks at a case like Enron, there is certainly no need for an abstract definition of *good*, to reach the conclusion, that the decisions taken in that situation were (morally) unacceptable. Common sense and intuition would lead to the same conclusion. Or one clearly does not need an advanced understanding of what morality really is, in order to rightly question the fairness of governments using public

funds to bail out financial institutions that were involved in various speculative trading activities.

An example for a philosophical explanation of morality is provided by Frankena (1966: 689). He claims that an object has a morality if “[i]t includes or consists of judgements (rules, principles, ideals, etc.) that pronounce actions and agents to be right, wrong, good, bad, etc., simply because of the effect they have on the feelings, interests, ideals, etc., of *other* persons or centers of sentient experience, actual or hypothetical (or perhaps simply because of their effects on humanity, whether in his own person *or* in that of another). Here ‘other’ may mean ‘some other’ or ‘all other.’” Hence, the difficulty of defining morality can be moved to a different problem, namely the one of defining the *good*, or distinguishing the good from the bad. It should be thus clear, that these are philosophical matters and it would bring no practical use to formulate such definitions in disciplines of applied ethics.

Perhaps one would understand this problem better by looking at the relationship between pure mathematics and physics. For instance, theoretical physicist Paul Dirac viewed this relationship in the following way. “Pure mathematics and physics are becoming ever more closely connected, though their methods remain different. One may describe the situation by saying that the mathematician plays a game in which he himself invents the rules while the physicist plays a game in which the rules are provided by Nature, but as time goes on it becomes increasingly evident that the rules which the mathematician finds interesting are at the same time those which Nature has chosen” (Dirac, 1939: 114). Had Dirac been referring to moral philosophy and applied ethics, he would probably mean that the moral philosopher is only limited by his or her own mind when formulating a definition for the *good*. On the other hand, the business ethicist (or any applied ethicist) will be limited by the reality of his or her organizational setting and would have to find practical ways in which to use the theory developed by the moral philosopher. Furthermore, one can argue that concepts like utilitarianism, the Categorical Imperative, or the veil of ignorance, although developed as pure abstract ideals, can help the business ethicist in understanding what is right in his or her organization.

Accordingly, it should be of no wonder that some business ethicists choose to not formulate such abstract definitions themselves. For that reason, no attempt will be made in this thesis to articulate these constructs. Instead, brief citations will be provided for the more abstract

concepts, before moving on to, also briefly, outline the main ethical theories with applicability in the business and economic contexts.

In principle it is considered that many individuals have at least a basic understanding of ethics in so far that the concept is related to what is right and wrong (Bishop, 2013). Indeed, this is a very simplistic view, and Bishop (213: 636) adds that “[e]thics comprises complex ideas, applications, and interpretations about not only what is right and wrong, but also why things are considered right and wrong.” In the Western culture, there are two main lines of ethical thought, both originating in Ancient Greece (Fricker, 2002). In the first line of thought, the unfolding truth, is “ultimately unknowable and founded on experience as much as on reason.” Among the main thinkers in this line of thought are Plato, St. Francis of Assisi and Jean-Jacques Rousseau. Under the second perspective, the revealed truth, “is knowable by way of the intellect and reason.” Aristotle, St. Thomas Aquinas and John Stuart Mill are among the philosophers who developed ideas based on this line of thought (Fricker, 2002: 429).

A further topic of debate is whether there is a difference between ethics and morality. For instance, Crane and Matten (2007) claim that although the two terminologies refer to related concepts, many academics are proposing a distinction. Accordingly, they formulate the following definitions (p. 8, emphasis added) in order to clarify this division.

“Morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community.”

“Ethics is concerned *with the study of morality* and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation.”

In his discussion of the psychology behind the concept, Rest (1986) states that morality is embedded both in the human psyche and in the social condition of human beings. Referring to psychological research, Rest (1986) mentions that empathy, or feeling bad when observing other individuals in distress, already exists in the early stages of a human’s life. Furthermore, Rest (1986) highlights the fact that as the self-concept of people develops, individuals generally want to view themselves as being decent and fair, as well as to understand that their role is only a part of a large social network. Regarding the social condition, Rest (1986) suggests that because people live in groups, the action of one individual can have an influence on the existence of another person. Therefore, he assigns the function of morality as providing “basic guidelines for determining how conflicts in human interests are to be settled and for optimizing

mutual benefit of people living together in groups” (Rest, 1986: 1). The social intrinsic characteristic of morality is reinforced by Kaler (1999) who views morality as guidance for how humans should live together. Furthermore, Kaler (1999) considers that morality would have no purpose if humans were non-social beings and were able to live completely detached from one another. Indeed, this argument is consistent with the integration thesis in Freeman’s (2008) stakeholder theory. Rest (1986) adds that morality constitutes the first principles of social organization, while other subjects, such as politics, economics, or sociology, constitute the second level of principles and provide specific ideas of how to create institutions, role-structures, as well as practices.

3.2 Ethical Theories

Ethical theory can be defined as “the branch of inquiry concerned with understanding morality, in the wide sense in which morality is constituted by standards of right and wrong, and of the good and the bad in human conduct” (Audi 2010: 46). Looking back at the definition of ethics provided by Crane and Matten (2007), one can observe that ethics and ethical theories have roughly the same meaning, namely the study of morality, which in turn is the study of right and wrong. Moreover, Crane and Matten (2007) actually continue their definition of ethics and add that ethical theories comprise the principles behind determining whether an action is right or wrong. This distinction however, is not so relevant for the purposes of this thesis, as both morality and ethics ultimately refer to the concept of right and wrong. Thus, the terminologies will be used interchangeably with no implied change of meaning throughout the thesis.

Traditional ethical theories rely on specific rules or principles which can be implemented in any given circumstance. Such theories have certain assumptions about the nature of the world, as well as about human nature and are therefore called normative theories. In other words, the normative content of any ethical theory can be expressed as the arguments offered by that theory for determining why a certain act is morally correct (de Colle & Werhane, 2008). Thus, whether one accepts one such theory and its outcome depends on whether said individual shares the theory’s underlying assumptions (Crane & Matten, 2007).

Most normative ethical theories can be grouped between consequentialist and non-consequentialist ethics. On the one hand in consequentialist theories, moral judgement relies

on the outcome (consequence) of any given behaviour. In other words, if outcomes are morally appropriate, then the behaviour in question is also acceptable. On the other hand, in non-consequentialist ethics, moral judgement relies on the specific behaviour of an individual. Therefore, if one's actions are consistent with moral principles, then the resulting outcomes will be accepted (Crane & Matten, 2007). Some authors like Hunt and Vitell (1986) use the terminologies teleological and deontological for consequentialist and non-consequentialist theories, respectively. However, both terminologies can be used interchangeably without any change in meaning, with teleology and deontology simply being based on the Greek words for *goal* and *duty*, correspondingly (Crane & Matten, 2007). Ferrell and colleagues (2005) add that in teleology, an act is considered morally acceptable in case it creates a desired outcome, like pleasure, wealth, utility, knowledge, or the realization of self-interest. Deontology on the other hand, perceives certain behaviours as fundamentally right and thus focus on the duties and rights of individuals. A look into several theories will provide a better understanding. The order in which the theories are presented is rather chronological and does not imply any form of classification. Furthermore, the following section is just a sketch that outlines the basic principles of each theory, without going into details such as limitations, or whether and how any theory is superior to another.

3.2.1 (Rational) Egoism

Crane and Matten (2007) claim that egoism is among the oldest philosophical ideas, having been already discussed by ancient Greeks. They add that the concept has been influential in economic thought, specifically in relation to the ideas of Adam Smith. Egoism can be understood as a consequential theory, which considers that the right behaviour is the one that will satisfy one's own self-interest (Ferrell et al., 2005; Crane & Matten, 2007). What this self-interest is, varies from individual to individual and can be practically anything from pleasure, power to having a satisfying career or a happy family, to name just a few examples. Egoism can be thus interpreted as encouraging a short-term orientation, and implies a rather unethical point of view where the egoist takes advantage of the others (Ferrell et al., 2005).

The motives behind egoism can be justified by the assumption that no individual has an adequate insight into the consequences of his or her actions and then, to achieve the good in life, one would have to live according to its own interests. This is also the argument behind

Adam Smith's concept of the 'invisible hand' of the market. The egoistic view of Smith's argument states that, on the long-term, acts like deception will not be in anyone's self-interest. Considering a free market with alternative choices, in case a producer decides to release defective goods, the consumers will eventually find out and stop purchasing these goods (Crane & Matten, 2007). Accordingly, Woiceshyn (2011) distinguishes between cynical and rational egoism, while Ferrell and colleagues (2005) state that enlightened egoists take a long-term point of view when prioritizing their self-interest.

3.2.2 Virtue Ethics

Although, traceable into antiquity, virtue ethics has only recently become to be of interest in business ethics (Crane & Matten, 2007). While being neither part of teleology, nor of deontology, virtue ethics places the focus on the character of the moral agent, rather than on outcomes or duties (Crane & Matten, 2007; Audi, 2010). Characteristics such as honesty, fairness, fidelity, beneficence (Audi, 2010), trust, tolerance (Ferrell et al., 2005), courage, patience, or wisdom can be labelled as virtues (Crane & Matten, 2007).

The argument of virtue ethics follows that to understand what it is to behave justly, one would have to study "the nature and tendencies of the just person, not the other way around" (Audi, 2010: 56). Furthermore, Crane and Matten (2007) claim that these traits are not innate, but are acquired through learning. Therefore, Aristotle insisted on the importance of the role model, a point which Audi (2010) claims to be the responsibility of any good manager, when considering the business environment. Ferrell and colleagues (2005) add that a virtue ethics point of view requires a society where institutions like family, school and community will sustain and nurture virtuous values. According to Crane and Matten (2007), one of Aristotle's main ideas with regard to virtue ethics, is the so called idea of a 'good life'. Living accordingly implies that the goal in life is to achieve happiness, where this goal is to be understood as being consistent with characteristics of virtue. They continue, that the goal in a business context would mean much more than generating profits because this is only one part of the 'good life'. Dierksmeier and Pirson (2009) add that for Aristotle, accumulating wealth was never an ends, but always a means, as wealth is only fulfilling a functional role and is insufficient by itself.

3.2.3 Kantian Ethics

A more prominent theory in business ethics is centred on specific rules and duties, which agents need to fulfil in order to live a moral life and is named after German philosopher Immanuel Kant (Audi, 2010). This approach can be also labelled as ethics of duties and as the name suggests, the theory can be categorized as deontological. In business ethics, the most used concept from this ethical perspective is the Categorical Imperative which can be explained as a requirement that one always needs to act in such a way as to be in accordance with a universal moral law (Crane & Matten, 2007). Audi (2010: 57) provides the following citation from Kant in order to illustrate one such universal law: *“Act so that you use humanity, as much in your own person as in the person of any other, always at the same time as an end and never merely as a means.”* Simply put, people are never to be misused or manipulated, but treated with respect and with an acknowledgment that others are individuals in their own right as well. Certainly, the philosophy of Kant is much broader than this one example, but it is not in the scope of this thesis to address this subject further. The main point of the theory is, that as rational beings, humans have to live their lives in accordance to what any rational being would deem as morally acceptable. Crane and Matten (2007) add that the principle of stakeholder theory – the acknowledgment of all involved parties and the balancing of their needs - was derived from Kantian ethics.

3.2.4 Utilitarianism

Resulting from the lines of thought of British philosopher-economists Jeremy Bentham and John Stuart Mill, utilitarianism is one of the most accepted ethical theories (Crane & Matten, 2007). As stated by Audi (2010), the argument of utilitarianism is that rules are impractical unless they are maximizing happiness and minimizing suffering. According to Crane and Matten (2007: 94) “an action is morally right if it results in the greatest amount of good for the greatest amount of people affected by the action.” In other words, one would have to choose that act from various options, which will be the best at increasing human happiness while reducing suffering, or “[i]f one act produces more happiness than another, it is preferable, other things being equal” (Audi, 2010: 59). Clearly, utilitarianism can be labelled as a consequential theory.

The main principle behind this theory is the utility principle, which is considered to represent the ultimate true goal in life. Furthermore, due to the fact that the utility principle is an important parameter in economics, utilitarianism found strong acceptance in economic circles (Crane & Matten, 2007; Audi, 2010). De George (1995: 61) adds that unlike ethics of duty, utilitarianism is not forcing anything upon individuals, due to the assumption that rational beings will “choose those actions that produce more good than those that produce less good, other things being equal.”

3.2.5 Rights and Justice

According to De George (1995) social issues are often discussed in relations of rights. There are basic moral rights, such as the right to life, but as rational beings, humans have developed other rights as well such as the right of freedom of speech or the right of property. De George (1995) continues and mentions, that a great difficulty is to assign priority for some rights over others. For instance, if one were to starve, would that individual have the right to steal food in order not to die? The starving individual’s right of life would then be in conflict with the right to property of the individual being robbed.

One way of looking into this problem is justice, a concept which according to John Rawls (2005) discusses the notion of fairness. Rawls (2005) argues that justice can only be formed under pure objective circumstances. To achieve this, he proposes a thought experiment, an “original position” where agents masked under “the veil of ignorance” make a contractual agreement for what it is to be considered just. What this means is, that the hypothetical individuals who sign this figurative contract are concealed behind a veil, where the only thing they know, including about themselves, is that they are rational human beings who value their own good. They do not know their own race, gender, social situation, nor any other information besides this one single fact, that in the reality outside of the original position they are rational human beings. Thus, Rawls (2005) believes that under these circumstances, the agents would agree on the solution that is most fair to all parties involved. One of his ideas suggests that, under this veil of ignorance, the cooperating parties will agree on the principle of equal liberty, from which they will be able to assign the priority of rights. Because the focus is on rights and specific duties which need to be carried out, Rawls (2005) considers his theory to be rather

deontological. However, he adds that the theory's arguments are not independent of consequences.

It's all nice and well to have various ethical theories to choose from, but then one could indeed ask the following questions. How to know which theory is better? Or, which theory provides the most righteous course of action in one particular situation? The answer is that there simply is no 'best' ethical theory.

The point is that one does not need to take any one of these theories, say Kantian ethics, and apply all its maxims with absolute strictness in every aspect of his or her life. As stated at the beginning of this chapter, this problem is ultimately one of personal choice. These theories can serve as guidance, but it is too much to hope that they will provide an exact answer for every difficult situation. For instance, Crane and Matten (2007) suggest that if one wants to benefit from ethical theories, one would have to view a situation from the multiple perspectives they offer. They claim that in doing so, one could use the different recommendations from theories as complementary rather than mutually exclusive.

While true, that viewing one particular situation from the vantage points of different ethical theories can lead to various and sometimes opposing conclusions on how to act, it is also reasonable to assume, that no (rational) ethical theory will conclude that a wrongful act has to be carried out. Certainly, this does not make the situation easier, because at some point in time one will be faced with a decision where a greater benefit for some will come at the cost of a lesser benefit (or greater harm) for others. Probably this is why utilitarianism is a quite popular moral theory. Nevertheless, if one accepts the idea that humans have freewill, then one also needs to accept the fact that freewill comes with the responsibility of making decisions.

A similar, but more difficult problem is moral relativism. According to Beauchamp (2010), this is a problem resulting from cultural differences and although ancient, it is still unsolved. Whereas various cultures will similarly value basic moral principles such as fairness, honesty, or respect for human dignity, sometimes they will disagree about how to approach these principles. This problem has significant relevance in international business, but it is far beyond the scope of this thesis to be discussed in detail.

4. Ethical Decision Making

Ethical decision making is perhaps the most important subfield within business ethics but is also responsible for some of its most difficult challenges. With over 35 years of research, scholars have studied various factors, influences and determinants of ethical decision making, including demographic data, psychological attributes and philosophical norms (Lehnert et al., 2014). While the origin of this field of study can be traced in psychological research (Kohlberg, 1973), its applicability is certainly not limited to business and organizational studies, as it ranges across various disciplines including medicine, athletics, arts (Lehnert et al., 2014), the legal practice (Fortney, 2014) and journalism (Voakes, 1997).

4.1 An Introduction to Ethical Decision Making

As already mentioned, decisions taken in business environments often have consequences affecting a wide spectrum of people, starting with the ones present in the immediate environment, like shareholders, employees, suppliers, or customers (Woiceshyn, 2011), but also reaching the global network of the economy and thus, in some extreme cases, like the scandals surrounding Enron, WorldCom, or specifically the current financial turmoil, having a major impact on society as a whole (Lewis et al., 2010; Casali, 2011).

West (2008), for example, considers that as a discipline, business ethics finds both an academic and a practical applicability in ethical decision making. Lehnert and colleagues (2014) point out that more applied research on ethical decision making is required, not only for helping business organizations achieve a stronger ethical orientation, but also for improving the general economic environment by minimizing the likelihood of corporate scandals. Considering that the main purpose of business ethics is to improve the business world, the field of business ethics implicitly tries to influence behaviour, an influence which cannot occur without a prior understanding of what shapes ethical decision making (Crane & Matten, 2007). Furthermore, it has been shown that people's ethical points of view differ between the context of their personal lives and the context of organizations, the latter being also shaped by organizational factors (Loe et al., 2000; Ferrell et al., 2005). Accordingly, whether and most importantly why business decision makers choose to act ethically or unethically is clearly a significant matter

(Woiceshyn, 2011), a fact also supported by the great number of studies conducted over the past three decades, with the goal of better understanding the principal factors behind ethical decision making (Craft, 2013). Four vast articles, which review studies and main findings on ethical decision making, have been published in the *Journal of Business Ethics* since 1994: Ford & Richardson (1994); Loe et al., (2000); O'Fallon & Butterfield (2005); and finally, Craft (2013). Another comprehensive review is authored by Tenbrunsel and Smith-Crowe (2008) and published in *The Academy of Management Annals*, while Lehnert et al. (2014) continue and expand the four reviews from the *Journal of Business Ethics*, but their article is currently published only in the online version of the journal. This chapter will outline the development of ethical decision making, briefly present its main theories and conclude with main findings and future directions of the topic, as shown in the above mentioned reviews.

Before moving forward with the discussion of ethical decision making, a brief clarification is needed for what the human process of decision making actually is. Jones (1991: 380) defines such processes as being “activated by the presence of a problem that requires a solution or response and often some form of action.” Thus, the process of ethical decision making is initiated by a problem consisting of a moral component (Jones, 1991). In other words, when a decision maker recognizes that the solution to a problem is involved with ethical choices, he or she is faced with an ethical dilemma (Crane & Matten, 2007).

Miner and Petocz (2003) classify ethical decision making as a special type of decision making, that requires cognitive activity like perceiving, knowing, or remembering and which is further influenced by social and emotional processes. According to the same authors, both general and ethical decision making methods involve the balancing of needs and preferences and are therefore sequential phases where first a problem is recognized, then alternatives are identified as well as evaluated and finally, behaviour takes place. In addition to general decision making, ethical decision making requires a moral justification, meaning that a central aspect of ethical decision making theory is to find the best alternative, which can be justified from a moral point of view (Miner & Petocz, 2003).

According to Crane and Matten (2007), an ethical perspective on decisions examines whether the resulting behaviour is right or wrong and therefore assigns a moral dimension to the situation. The authors further argue that three factors are necessary in order to allocate moral status to a problem:

- The outcome of the decision will have an impact on others.
- The decision is surrounded by choice, meaning that alternative actions are possible.
- At least one of the involved parties perceives the situation as ethically relevant.

In general, ethical decision making can be categorized into two schools of thought, namely normative and positivist (Loe et al., 2000; West, 2008). On the one hand, normative models rely on either one of the many theories of moral philosophy and discuss how decisions *should* be made, so that behaviour will be morally satisfactory. On the other hand, positivist models describe how decisions *actually occur* within organizations, with the aim of understanding why these decisions take place, so that future behaviour can be predicted with more reliability (West, 2008). Loe et al. (2000) are criticizing normative models for their dependence on absolute truths and state that positivist models can be better evaluated and provide a better understanding of business phenomena. They consider (p. 185) that “positive ethical decision making models and their theoretical underpinnings identify key constructs that assist in understanding the factors that have the greatest effect on an individual’s ethical decision making in organizations.” O’Fallon and Butterfield (2005) label positivist models as descriptive and claim that although both normative and descriptive models are important, the latter have the advantage of being empirically testable.

4.2 Models of Ethical Decision Making

The following section will provide the development of ethical decision making research, by giving a brief overview of some of the fundamental, or so called classical, models of ethical decision making. Although in some cases criticised (Bartlett, 2003; Tenbrunsel & Smith-Crowe, 2008), the contribution of the following models for the understanding of ethical decision making is supported by many researchers (Gaudine & Thorne, 2001; Woiceshyn, 2011), including its critics (Bartlett, 2003; Tenbrunsel & Smith-Crowe, 2008). Moreover, there appears to be consistent empirical support for the relationship between these models and how people make ethical decisions (Lehnert et al., 2014).

4.2.1 Kohlberg's Theory of Cognitive Moral Development

Several authors (Jones, 1991; Knouse & Giacalone, 1992; Woiceshyn, 2011) attribute the theoretical basis for models of ethical decision making to Lawrence Kohlberg's theory of cognitive moral development. In the foreword to James Rest's book, *Development in Judging Moral Issues* (1979), Kohlberg mentions that he began his research on moral development in 1955 when he started working on his dissertation, by building upon Jean Piaget's investigation into the development of moral judgement in children.

Expanded by Kohlberg over a period spanning several decades, the theory of cognitive moral development suggests, that people's logic and morality "develop through stages and [...] each stage is a structure which, formally considered, is in better equilibrium than its predecessor. [Therefore] each new stage [...] includes elements of earlier structures but transforms them in such a way as to represent a more stable and extensive equilibrium" (Kohlberg, 1973: 632).

Broadly viewed, Kohlberg's theory states that individuals go sequentially through a number of stages as they morally develop from childhood into adulthood. There are a total of six stages, which can be categorized into three levels. Level I, or the preconventional level, is where most children up to the age of nine can be classified. At Level II, or the conventional level, the majority of adults find the peak of their moral development. Finally, the postconventional level is reached only by a limited number of individuals, namely by people who go beyond identifying themselves with external expectations, rules or laws and make their decisions based on universal ethical principles (Cooper, 1985; Treviño, 1992; Robertson & Fadil, 1999). Lehnert et al. (2014) explain cognitive moral development as a scale, where, as they advance, individuals are able to process moral judgements at higher levels of abstraction. The following outline³ of all levels and stages should provide a clearer picture.

CMD Level I – The Preconventional Level

At the first level, children are capable to respond to rules of right and wrong, but are not yet able to fully understand why certain actions are good while others are bad. Their interpretation of right and wrong rests solely on the consequences of their actions. These consequences appear

³ If not otherwise noted, the summary of the cognitive moral development theory is based on Kohlberg (1973)

in form of punishments, rewards, or exchange of favours from the figures of authority embodied by the persons who set these rules (in most cases the parents). Thus, individuals at this level of moral development can be characterized by egocentrism, because they view the world as organized only according to their own interests (Cooper, 1985).

While at stage 1, or the punishment-and-obedience orientation, the individual child only places value on the fact of avoiding punishment, at stage 2, or the instrumental-and-obedience orientation, the child begins to also understand the needs of others, albeit in the very simple manner of “*you scratch my back and I’ll scratch yours*”, but without feeling loyalty, gratitude or justice (Kohlberg, 1973: 631, emphasis added).

CMD Level II – The Conventional Level

The main characteristic of the second level is, that fulfilling the expectations of one’s family, or of one’s cultural group, is recognized as a value in itself apart from considering consequences. Therefore, loyalty comes into play, because at this level the individual is not only trying to conform to the expectations of others, but also to maintain and support the relationship to others, as well as to identify itself with the other individuals within the group. In other words, the person at this level is able to internalize the shared moral norms of its group (Treviño, 1992).

Stage 3, or the interpersonal concordance orientation, is where the individual understands that good behaviour is not only approved by others, but that it also pleases and helps them. Conformity at this stage is strongly linked to what the majority within a group considers to be natural behaviour. Motives and intentions are also important at this stage, because the individual places high value on social approval and trust (Treviño, 1992).

The progress to stage 4, or the law and order orientation, can be evidenced by the fact, that the individual is not only seeking social approval from the immediate group to which it belongs, but also from society as a whole (Treviño, 1992). At this stage the individual is able to view the legal system as having the highest moral priority and should be able to place the interests of its own group below those of the law (Cooper, 1985).

CMD Level III – The Postconventional Level

Also labelled by Kohlberg as autonomous or principled, the postconventional level of cognitive moral development is where moral ideals are separated from the validity of groups and institutions and where such principles exist for the individual aside from its own association and identification with these groups. De George (1995) describes individuals who are able to reach this level, as being aware of laws and regulations, but as acting in accordance with them not because it is so required, but because they are truly able to understand why a certain action is morally right or wrong. Furthermore, Cooper (1985) considers that this is the level where moral theory begins to show significant importance, while De George (1995) concludes that this is the level where ethical theory acts.

Individuals at stage 5, or the social-contract legalistic orientation, still give significant attention to the legal system, but at the same time, they also have considerations on how to improve existing laws, so that a social utility that protects individual rights can be promoted (Cooper, 1985). This is because, as Kohlberg argues, people at this stage recognize the relative or arbitrary value of existing laws. As opposed to individuals at stage 4, who are limited to obeying the law because it is so required, those who reach stage 5 have the ability to also reflect on the existing legal system. According to Cooper (1985: 317), people who reach stage 5 see the conflicting outcomes of differing opinions as a natural occurrence and that such conflicts need to “be resolved in accordance with previously existing just contracts designed to promote the common good.”

At the 6th and final stage, or the universal-ethical-principle orientation, individuals define what is right by self-chosen ethical principles which appeal “to logical comprehensiveness, universality, and consistency” (Kohlberg, 1973: 632). Abstract concepts like the Golden Rule or the Categorical Imperative can be considered such principles. The individual at stage 6 acts in accordance to universal principles of justice, where the equality of human rights as well as the acknowledgement of each human being as an individual person, are important.

Building upon Rawls’ concept of the *veil of ignorance*, Kohlberg argues that at stage 6, an individual will understand the fairness of a moral decision by going beyond reversibility and reaching the universalizability of moral judgement. What this means is that while reversibility simply implies that one needs to view any situation from the points of view of all involved, universalizability goes further and requires, that one needs to have a completely detached point of view and react to an ethical dilemma, as if one would not even know which person he or she

is in that particular situation. However, Kohlberg himself mentioned, that people are only able to advance naturally up to stage 5 and that advancement to stage 6 requires formal philosophical training (Cooper, 1985).

According to De George (1995), in everyday life, most people show characteristics of behaviour that operates at different levels, depending on the situation where one finds itself. As an example he mentions the point that sometimes adults engage in behaviour as a reaction to reward and punishments, whereas at other times, the same individuals behave in accordance to requirements of groups or laws. What this shows, is that although an individual has reached Level II, on certain occasions it will also act according to Level I. Treviño (1992) also supports this idea and further suggests, that the stages are hierarchical and therefore, individuals are able to understand the implications of all stages below their current stage, but not more than one stage above.

4.2.2 The Contingency Framework of Ferrell and Gresham

While of significant importance for the development of ethical decision making research, Kohlberg's model was not developed with a consideration of ethical decision making in organizations, as it was rather a purely psychological research. The first theoretical breakthrough in ethical decision making research from a business perspective, was the contingency model⁴ of Ferrell and Gresham published in 1985 (Tenbrunsel & Smith-Crowe, 2008).

Even though the model was developed with a strong focus on marketing, Ferrell and Gresham argue that their theory is valid across all departments of a business unit. Their argument for choosing this emphasis is that the marketing setting of a firm offers strong opportunities for unethical behaviour. As examples they provide deceptive advertising, price fixings, bid rigging, or falsifying market research data.

According to Ferrell and Gresham, at the time of their research there was not a clear understanding for what is ethical conduct for marketing managers. This was seen by them as a

⁴ If not otherwise noted, the summary of the contingency framework is based on Ferrell and Gresham (1985)

further incentive for unethical conduct, which would further lead to losses both for consumers and companies on the long run. However, it was not in their aim to define what is ethical or unethical, but only to identify determinants behind individual decision making processes, which can result in either ethical or unethical behaviour. The criteria, for determining whether certain behaviour is ethical or not, were treated as external variables.

The contingency model suggests, that observed variations in ethical decision making are not random, but are dependent on the contexts where decisions are being made. The proposed model consists of four stages: recognizing the moral dilemma, making the decision, engaging in behaviour and finally evaluating the behaviour (Dedeke, 2015). Ferrell and Gresham label determinants of decision making as contingency factors which include both individual and organizational elements. The authors consider knowledge, values, attitude and intentions among the individual factors, while internal pressures, significant others and opportunity to be organizational factors. The final evaluation of actual behaviour is treated as a learning component which modifies both the individual and the situational factors and therefore, creates a feedback loop that will have an impact on future behaviour (Jones, 1991).

With regard to individual factors, Ferrell and Gresham consider moral philosophy to be the most important determinant. In their view, individuals use moral philosophy either consciously or unconsciously as a support for making ethical decisions. Moral philosophy was presented in a similar way to the description provided earlier in this thesis, namely in form of ethical theories, classified as either teleological or deontological. It was assumed that these rules explain the ethical standards of decision makers, because, whether they know it or not, most marketers and business people frame their own rules and guidelines for moral behaviour in accordance to various ethical theories.

As stated, the contingency framework of Ferrell and Gresham also considers organizational factors to be affecting an individual's ethical decision making process. Internal pressures for profits, results, or for reaching other targets are seen as major determinants of ethical or unethical behaviour. Moreover, it is argued that the social interaction with other people who are part of the organization, will determine how one learns what ethical or unethical conduct is, with the ratio of ethical to unethical individuals, determining the general tone of the organization. In other words, when the majority within a company behaves unethically, such behavioural patterns will be learnt by newer employees and therefore an unethical environment will be nurtured. Ferrell and Gresham also point out to the impact superiors have on the

decision making process of subordinates. Due to the authoritative role of top management, the way these individuals behave, will define what is acceptable in the organization and therefore, subordinates will adhere to their behavioural pattern and act accordingly. The final component of organizational factors to be included in the contingency model is opportunity. Ferrell and Gresham explain opportunity by the presence or absence of codes of ethics within an organization, as well as by the company policy on how it rewards and / or punishes ethical and / or unethical behaviour.

4.2.3 Rest's Four Component Model

Another fundamental theory of ethical decision making is James Rest's four stage model, a psychological framework upon which the majority of future models have been developed and which has been used as the main basis for empirical research in this field (O'Fallon & Butterfield, 2005).

Rest⁵ is approaching the topic of moral decision making by asking the question: "When a person is behaving morally, what must we suppose has happened psychologically to produce that behavior?" (Rest, 1986: 3). Rest responds that four different psychological processes are necessary in order for an individual to engage in moral behaviour and labels these processes as the *Four-Component Model*. Broadly viewed, these processes are: identifying the moral issue; making a moral judgement; establishing moral intent; and finally, engaging in moral behaviour. Rest (p. 5) stresses on the point that the four stages or components describe the "*processes* involved in the production of a moral act, not general traits of people." In other words, the model does not aim to provide the general virtues or characteristics which should make up an ideal moral individual, but to provide a unit of analysis for the psychological course of action that an individual takes, when he or she is confronted with an ethical decision making situation.

Furthermore, Rest points out that the model should not be perceived as a linear sequence occurring in real time, meaning that the process does not necessary need to happen in the presented order. In order to illustrate this idea, he provides an example of an individual whose moral judgement influences his or her interpretation of the moral dilemma, which means that in such a case, the first component (identifying the moral issue) is preceded by the second

⁵ If not otherwise noted, the summary of the four-component model is based on Rest (1986)

component (making a moral judgement). The sequence is presented in a logical way and provides a *general* framework for what is expected to happen when people engage in moral decision making. Moreover, the model does not constitute a unitary process, as each of the four components has its own distinctive functions. In other words, an individual can recognize the moral problem in a particular situation, make a valid moral judgement of the situation, but still engage in unethical behaviour. Hence, successfully completing the first two stages does not automatically imply the continuation of the process with a culmination in moral behaviour. An illustration for each of the four components should provide a better understanding.

Component 1 – Moral Awareness

The first component addresses the point whether an individual is able to recognize and therefore interpret a moral dilemma. When a person is aware that he or she is confronted with a moral problem, that person will imagine what actions are possible and what consequences these actions will have on each individual who is involved in said situation. For moral awareness to occur, a person must at least be able to recognize that he or she could act in a way that may have moral implications on the interests of other people.

Component 2 – Moral Judgement

After the individual is aware of being faced with an ethical dilemma, he or she would need to decide what possible alternative of action is morally right. Therefore, Rest labels the second component of his model as moral judgement. According to Rest, a general observation of our society implies that people are naturally able to make moral judgements. Evidence is given by young children who react with outrage when they have the feeling that something wrong has been done to them, as well as by adults who seem to have strong opinions about challenging topics such as social justice, wars and military force, abortion, or healthcare. What Rest finds noteworthy is the fact that, on the one hand, people generally seem to at least have an intuition, regarding what is morally acceptable in such issues, while on the other hand, people's opinions on one topic can strongly oppose each other. Additionally, Rest notes that cognitive developmental psychologists, like Kohlberg, have made great contributions in this area, by studying how moral intuition works.

Component 3 – Moral Intent

Rest's model implies, that an individual identifies the morally correct action out of a number of possibilities through moral judgement. However, moral values are not the only ones that drive people's decisions. Rest claims that, individuals also care for other matters, such as career advancement and further personal interests, and that these other concerns can stand in conflict with moral values. Thus, the third component, or moral intent, implies that on many occasions people must prioritize moral values over other personal values in order to engage in moral behaviour. In other words, they also need to have the intention for choosing what has been identified as the morally acceptable alternative in order to behave accordingly.

Component 4 – Moral Behaviour

The final component of Rest's model is moral behaviour and addresses the execution and implementation of the first three components. After showing the intention of behaving in a morally acceptable way, the individual must also have enough "perseverance, ego strength, and implementation skills to be able to follow through [...] to behave morally [...] and to overcome obstacles" (Rest, 1986: 4). Ego strength can be understood as a construct which measures how well an individual can resist impulses and follow its own principles rather than those of others. Therefore, individuals with a high measure of ego strength are expected to be more consistent in behaviour and to mostly act according to what they believe to be right (Treviño, 1986).

To highlight the idea that having the right intention is not enough, Rest adds that the individual must figure out how to work around impediments and unanticipated complications, must resist distractions and must outline a concrete plan of action, in order to reach the goal of moral behaviour.

4.2.4 The Hunt – Vitell Model

Shelby Hunt and Scott Vitell⁶ propose a descriptive model of ethical decision making with a similar structure to the one proposed by Rest (1986). Originally published in 1986, the model

⁶ If not otherwise noted, the summary of the Hunt – Vitell model is based on Hunt and Vitell (1986)

has been developed with a focus on marketing. However, in their 2006 revision of the model, Hunt and Vitell state, that 20 years of research have evidenced, that their theory is not limited to the marketing or business environments, but is also applicable to general ethical decision making (Hunt & Vitell, 2006).

The model consists of four stages where first an individual, who is faced with an ethical dilemma, has to perceive the ethical content of the problem. If the individual fails to do so, the succeeding components of the model will not come into play. The first stage is thus the equivalent of the first component in Rest's (1986) model – moral awareness. Hunt and Vitell (2006) propose several factors as having an influence on moral awareness. Firstly, these are related to the macro or cultural environment (the legal and political systems), next, to the individual (the personal characteristics of the individual) and finally, to the organization, where factors from both the specific organization and the industrial sector, where the organization is active, are taken into account. Moreover, the influence of these factors is not limited to moral awareness, because as Hunt and Vitell suggest, these characteristics can also have an impact on the other three stages of their model.

After having perceived the ethical component of the situation, the individual will identify a number of possible actions that could be undertaken in order to solve the initial problem. The second stage is labelled ethical judgements and keeps a consistent structure with Rest's (1986) model. However, Hunt and Vitell add that it is unlikely for an individual to be capable of evoking the complete set of available alternatives. Therefore, because each individual confronted with a certain situation will be likely to evoke a different subset from the universe of possible actions, different behavioural patterns across various individuals can be explained.

Moreover, the second stage in the model of Hunt and Vitell is constituted by two kinds of evaluations, namely one which is deontological and one which is teleological. Although this is similar to the approach taken by Ferrell and Gresham (1985) Hunt and Vitell develop this idea further and consider that both ethical perspectives are necessary in order to provide a complete picture of how individuals value actions consisting of a moral component. They postulate (1986, p. 9) that ethical judgement "is a function of the individual's deontological evaluation (i.e., applying norms of behaviour to each of the alternatives) and the individual's teleological evaluation (i.e., evaluating the sum total of goodness versus badness likely to be produced by each alternative)." Accordingly, the individual will evaluate the rightness or wrongness of, on the one hand the behaviours and actions, and on the other, on the consequences implied by each

identified alternative. Hunt and Vitell consider that individuals will apply a set of predetermined deontological norms, ranging from general beliefs about honesty, or how to treat people fairly, to specific beliefs related to the issue, such as for example deceptive advertising or product safety.

For the teleological evaluation, Hunt and Vitell propose four constructs: the consequences of each identified alternative for all stakeholders; the probability of occurrence; the desirability or undesirability of the consequences; and finally, the allocated importance to each stakeholder group. According to Hunt and Vitell, these sets of evaluations explain the differences in behaviour across multiple individuals and / or organizations. Hunt and Vitell add that, although very unlikely, it is possible that some individuals in some situations might be strict deontologists or strict teleologists. An important idea of their model however, is that in most cases people make ethical judgements by applying both deontological and teleological evaluations and that the different ways in which these evaluations are applied, constitute one of several explanations for the variance in behaviour across multiple individuals.

Again, similar with Rest's (1986) theory, the third stage in the Hunt – Vitell model is called intention, where the authors note, that even though an individual is able to recognize the most righteous alternative in an ethical dilemma, he or she may have the intention of choosing a different course of action, in part due to specific desired consequences (teleological evaluation). Here, Hunt and Vitell (2006) provide the example of an ethical egoist, who will evaluate the consequences on the basis of positive outcomes to the self, as opposed to a utilitarian, who will decide based on the greatest benefit for all involved parties. This of course takes us back to the question of which, if any, ethical perspective is the best. The main point however, is to understand why and how individuals can show different behavioural patterns in the same situation. This is why Hunt and Vitell label their model as a *positive* or *descriptive* theory of ethics, as opposed to a *normative* theory. As previously discussed, the purpose of a positive model is to describe and explain how actual behaviour takes place and not to provide specific guidelines for conduct.

Consistent with other models of ethical decision making, the final stage in this theory is behaviour. Hunt and Vitell consider that in general, both moral judgement and intention can be used as predictors for behaviour. However, like Rest (1986) Hunt and Vitell list a number of constraints, which can lead to behaviour being inconsistent with intention. Such constraints can be related to both the individual as well as the organization. Mentioned as important personal

characteristics are “*action control*” a concept which Hunt and Vitell (2006: 146) define as “the extent to which an individual actually exerts control in the enactment of an intention” and “*strength of moral character*” which can be interpreted as the equivalent of what Rest (1986) labelled as ego strength. Furthermore, Hunt and Vitell (2006) mention opportunity to be a significant situational constraint, implying that opportunities which exist in the organization, will affect individual behaviour. By this stage it also noticeable that, as in the case of Rest (1986), the Hunt - Vitell model is not continuous, meaning that successfully completing one stage, will not guarantee the advancement to the next stage.

Finally, Hunt and Vitell (2006) posit, that after behaviour takes place, the individual will evaluate the actual consequences of his or her actions. This evaluation then creates a learning component, because the observed consequences will have an impact on the personal characteristics of the individual and will therefore influence future behaviour.

4.2.5 The Person-Situation Interactionist Model of Treviño

Linda Treviño⁷ proposes the interaction of individual and situational factors as a framework for ethical decision making. Her model suggests that the combination of individual with situational variables can explain and predict how individuals make ethical decisions in organizations. The model begins with an ethical dilemma which is followed by an individual’s cognitions about the situation. The cognitions are then moderated by both individual and situational characteristics and the result of this process is either ethical or unethical behaviour.

With regard to individual factors, Treviño considers Kohlberg’s concept of cognitive moral development to be the main determinant. In her view, the stage of one’s cognitive moral development influences how the individual deals when confronted with moral dilemmas, as well as how the individual decides what is right and what is wrong. Hence, the cognition stage of the person-situation interactionist model is simply the individual’s level of cognitive moral development. However, cognitive moral development alone cannot sufficiently explain ethical decision making. Therefore, Treviño also proposes ego strength, field dependence and locus of control as moderating individual variables.

⁷ The person-situation interactionist model is based on Treviño (1986)

Field dependence is a similar construct to ego strength and measures how individuals, when faced with an ambiguous situation, rely upon the information of referent others in order to reduce the level of ambiguity. A field dependent individual will use the available information from referent others and guide its behaviour accordingly, while a field independent individual will act with greater autonomy, even if information is available. In order to illustrate the applicability of this construct on ethical decision making, Treviño provides an example of a manager who asks a subordinate to do an unethical act, but formulates the task in such a way, as to either appear unproblematic or to be without consequences for that employee. Therefore, a field dependent individual who has not reached the postconventional level of cognitive moral development, will be more likely to act in accordance with the information provided by the referent other, than a field independent individual, who has the same level of cognitive moral development.

The final individual variable considered by Treviño, is locus of control, a personality characteristic, which can be understood as an “internal / external scale [that] measures an individual’s perception of how much control he or she exerts over the events in life” (Treviño, 1986: 610). While individuals who are labelled as *internal* believe that most consequences are the result of their own efforts, *external* individuals believe that many outcomes lie beyond their control, as they are determined by luck, fate, or destiny. Hence, Treviño considers that people with an external locus of control are less likely to take full responsibility for the outcome of ethical / unethical behaviour, than individuals with an internal locus of control.

The organizational context is a social landscape and therefore, individual factors alone are not enough to explain ethical decision making in a workplace environment. For that reason, Treviño proposes a number of situational variables, which are also moderating the relationship between cognition and behaviour. These variables are characteristics of the work, organizational culture and the immediate job context.

According to Treviño, it is possible that cognitive moral development continues to take place well into adulthood. Therefore, she believes that the characteristics of the working environment can contribute to an individual’s cognitive moral development. Treviño proposes opportunities for role taking and responsibility for solving moral dilemmas as two such characteristics. Role taking can be understood as “taking account for the perspective of others” (Treviño, 1986: 611). Thus, Treviño considers that the involvement of employees in the communication process of decision making can contribute to an advancement of cognitive moral development. In other

words, a rather democratic, as opposed to an autocratic, style of leadership, where the opinions of all employees, who are involved in a decision making situation, are taken into account and valued, can help with the progression of cognitive moral development and therefore improve ethical decision making within the organization.

The general impact of organizational culture is explained by Treviño as being related to the evidence that most adults operate at the conventional level of cognitive moral development. As already discussed, this level is characterized by the dependency of moral evaluation on external norms, such as social values, laws, or in this case, organizational culture. Therefore, it is expected that most individuals will use the cultural context of their organizations as moral justification for their behaviour. In other words, the individual's cognitive moral development is continuously influenced by the organizational setting. Furthermore, because Treviño assumes that an individual's cognitive moral development is the starting point of approaching ethical dilemmas (the first stage of her model), the whole process becomes a feedback loop. This means that, viewed as a whole, the process of decision making is continuously influenced by itself, or that current behaviour will have an influence on how future decisions will be made.

Elaborating on the point of organizational culture, Treviño sees reinforcement and other pressures as being situational factors which contribute to ethical decision making. Reinforcement theory explains behaviour as being related to its consequences. Accordingly, how an organization treats ethical / unethical behaviour, namely in the form of rewards and punishments, will have an impact on the general predisposition of employees to engage in unethical practices. Under pressures, Treviño enumerates personal costs of engaging in moral behaviour, time pressures, as well as external pressures related to scarce resources and competition. She does not give an explanation for personal costs, but Bolino and Turnley (2005) enumerate role overload, a concept describing situations where employees are given too many tasks and responsibilities, job stress and work-family conflict as such costs.

It is quite obvious to observe a similarity between Treviño's model and the others which have been mentioned, in particular the contingency framework of Ferrell and Gresham. Both models start with an individual being faced with an ethical dilemma, who then has its decision making process influenced by, on the one hand its own personal characteristics and on the other, by factors related to the organization. The characteristics related to the individual are quite different though. While Ferrell and Gresham take a philosophical explanation, in form of ethical theories as determinants, Treviño takes a psychological description and uses Kohlberg's

theory of cognitive moral development as having the main impact on an individual's approach to ethical dilemmas. With regard to organizational factors, a similar approach can be seen in the observation of the working context as a social environment, where social interactions influence individual decision making processes, as well as in the function of the reward and punishment system. Pressures are also seen as significant in both models. While Ferrell and Gresham only consider internal pressures related to profits and similar targets, Treviño adds a temporal component to internal pressures and also considers external pressures to influence ethical decision making. Also consistent is the presence of a feedback loop, where evaluation of present behaviour will have an impact on the individual and will therefore influence future behaviour.

4.2.6 Jones' Theory of Moral Intensity

In a synthesis of a number of ethical decision making models, among which also the theories presented above, Jones⁸ posits that these models have failed to adequately consider the characteristics of the moral situation itself as a determinant. He argues that, these characteristics are important, because ignoring them in a model of ethical decision making would suggest that people will act identically under different situations of moral ambiguity regardless of the issue's intensity. As an example Jones mentions, that, if these models are to be taken at face value, one should act in the same way, whether he or she is confronted with stealing a small number of office supplies, or with releasing a dangerous product to the market. In other words, previous models would suggest that only the characteristics of the individual and the organization where the individual is present will influence whether that person will act in an ethical or unethical manner. According to Jones, how serious the situation itself is, was at best only hinted at, but was not considered neither as an independent, nor as a moderating variable. For instance, Hunt and Vitell (1986) have considered that the way individuals evaluate different work related situations can have an effect on their moral judgements.

As a reaction to this problem, Jones has developed the concept of moral intensity. As the name suggests, moral intensity is a construct which basically tries to measure the importance of morality within a certain situation.

⁸ If not otherwise noted, the summary of the moral intensity theory is based on Jones (1991)

This multidimensional construct is composed of the characteristics of the moral dilemma, which, according to Jones, are the magnitude of possible consequences (the total harm or benefit of the act); the social consensus (the degree to which society agrees that a certain act is right or wrong); the probability of effect (the probability of the act actually taking place as well as the probability that the action will cause the predicted harm or benefit); a temporal scale (the time between the present and the occurrence of expected consequences); a scale of proximity (the social, cultural, psychological, or physical distance between the moral agent and the others who are affected); and finally, the concentration of effect, which can be understood as the inverse function between the number of affected individuals and the magnitude of the act. To understand the concentration of effect, Jones gives the example that cheating an individual or a small group of people with a certain sum of money, will have a greater concentration than cheating a corporation with the same amount.

Frey (2000), views moral intensity as a scale and believes that as the intensity increases, people can become more aware of the ethical component of a certain situation. In other words, this suggests that there is a relationship between moral intensity and moral awareness. Moreover, Lehnert et al. (2014) find that moral intensity is positively related to all four components of Rest's model.

The characteristics of the moral agent and of the organization are not considered in Jones' theory, because the framework is only concerned with the moral issue itself and should therefore be seen as complementary to other models of ethical decision making. Furthermore, Jones sees moral intensity as analogous to the legal standard and provides the example that penalties in the legal system are proportional to the severity of the illegal act. In other words, the legal standard considers that various acts can be classified according to their degree of breaking the law.

As it can be seen, the above mentioned theories and models of ethical decision making are not exactly competing or opposing each other, but are rather drawing upon one another, while extending and further developing the ideas. A communality to most models is the presence of different stages that decision makers go through, when confronted with a moral dilemma (Crane & Matten, 2007), as well as the presence of a learning component, provided by the post-behaviour evaluation, which is considered to influence future behaviour (Tenbrunsel & Smith-Crowe, 2008).

4.3 Main Findings, Criticisms and Future Directions in Ethical Decision Making

As mentioned in the introduction of this chapter, some authors conducted meta-reviews of ethical decision making by summarizing and criticizing the empirical literature on the topic. What this means is, that on the one hand, they took the influencing factors as proposed by theoretical models and then tried to show which of these factors tend to have the most consistent effect on ethical decision making.

The first review, authored by Ford and Richardson (1994), covers studies published between 1978 and 1992. Their main findings indicate that the majority of ethical decision making research has been focused on factors related to the individual, while a smaller number has studied organizational factors. The review shows mixed findings for the effect of demographic characteristics and a stronger, albeit not conclusive support for personality characteristics. In general, Ford and Richardson (1994) have found consistent support for the influence of organizational factors on ethical decision making. They have however criticized the omission of factors like job commitment, general economic climate, or industry competitiveness. Ford and Richardson (1994) have expressed further concern for the overall small number of studies conducted on the topic, as well as for the lack of a clear definition of ethical behaviour and therefore for the discipline.

In the second major review, Loe et al. (2000) continue the work laid out by Ford and Richardson and review studies published between 1992 and 1996. They begin their discussion of findings with gender and mention that the reason for the large number of studies analysing this construct might be related to the fact that gender appears very often as a control variable, as in most cases the research method is questionnaire based. Craft (2013) adds that this provides simplicity for researchers, because the variable is fairly easy to test and hence to gather (some) results. Although not directly mentioned, this might also be the reason behind Ford and Richardson's finding regarding the large number of studies dedicated to gender as well as to other demographic variables. Loe et al. (2000) don't give particular attention to other demographic factors and note, with regard to gender, that in most reviewed articles no significant difference has been found between males and females, but the small number of studies which have found a relationship between gender and ethical decision making, tend to show women as more ethical than men. Similar to the review by Ford and Richardson, Loe et

al. (2000) show that a majority of studies supports the relationship between organizational factors and ethical decision making.

The third review, authored by O'Fallon and Butterfield (2005) covers empirical studies published between 1996 and 2003 and together with the previous two reviews contains more than two decades of research. Therefore, O'Fallon and Butterfield are able to draw several conclusions. Individual factors continue to be studied heavily and results are in general consistent with the previous two reviews. Significant and consistent results appear to be in the effect of philosophy / value orientation, where idealism and deontology positively affect ethical decision making; in education and work experience, where more education, albeit regardless of type, and more work experience have a positive impact; and finally in personality traits, where cognitive moral development is positively related to ethical decision making. Consistent with the previous two reviews, O'Fallon and Butterfield's results tend to show support for the relationship between organizational factors and ethical decision making. The most common variables are the presence of codes of ethics, ethical climate / culture, the reward and punishment system, industry type and organizational size, where all, with the exception of the latter two, seem to show a positive relationship with ethical decision making.

Craft (2013) also makes a contribution to the subfield of ethical decision making and analyses the empirical literature published between 2004 and 2011. A significant change from the previous years is evidenced in the increased attention dedicated to the impact of personality, as well as the presence of studies dealing with the effect of emotions. Although still a minority compared to the number of studies dedicated to individual factors, organizational factors still appear to have a significant impact on ethical decision making.

It is important to note though, that while a majority of studies do support these claims, there is also a quite noteworthy number of studies showing opposite results. Hence, one can only conclude, that overall there are mixed views for what are actual determinants of ethical decision making.

Reviews of ethical decision making literature show that in many cases, studies have been conducted with samples of students, or a combination of students and other individuals (Loe et al. 2000; O'Fallon & Butterfield, 2005; Lehnert et al., 2014). Although the authors of the first review, Ford and Richardson (1994) have not been critical, but rather supportive for this choice, in the second review, Loe et al. (2000) are asking for more industry samples and furthermore, for longitudinal studies in order to gain a better understanding of how the implementation of

ethics programmes within an organization impacts its employees. Lehnert et al. (2014) stress on the idea, that researchers should not limit themselves to the easily available samples composed of students, but should also focus on the generalizability of their samples. Furthermore, Lehnert and colleagues (2014) argue that in some cases, studies have been conducted with relatively small samples (the sample was less than 100 in 21 out of 141 reviewed studies), and that often, the criteria for sample selection were not specified.

In their review of ethical decision making literature, Tenbrunsel and Smith-Crowe (2008) are criticising the fact that most empirical research in this field, has been typically conducted with a strong focus on correlational and exploratory methods. This, they mention, is indeed useful when a research field is new and when significant factors need to be identified. However, in order to achieve progress and therefore to ensure the survival of ethical decision making as a research discipline, there is a need to move forward, to develop new theories and to take advantage of newly available technologies. Bartlett (2003) also stresses on the fact that the dominant method of research is survey based and that furthermore, many surveys are constructed in an ambiguous or vague method. Therefore, Bartlett (2003) asks for more qualitative research, which, he considers, will provide better insight into a complex topic like ethical decision making. However, as the more recent reviews suggest, this call has not yet been truly answered.

Regarding the number of published articles, on the one hand, Lehnert et al. (2014) praise the large amount of research conducted on the topic, a fact which, according to them, recognizes the importance of ethical decision making, but on the other hand, they warn that still there is no clear direction for this discipline. Therefore, the concern of Ford and Richardson (1994), as expressed in the first review, with regard to the small number of empirical studies, seems to have been taken into consideration, but the problem with a lack of clarity within the discipline apparently still persists.

4.3.1 Ethical Decision Making: A Game between Reason, Emotion and Intuition

Tenbrunsel and Smith-Crowe (2008) argue that the classical models of ethical decision making have been developed as strictly rational processes, without considering possible effects from emotions, the subconscious, or intuition. This perspective of decision making theory can be

traced back to the thinking of Kant, who considered that moral reason alone enables good will, which in turn is the only unconditional good. Therefore, Tenbrunsel & Smith-Crowe (2008: 571) conclude that the classical models of ethical decision making view the mechanism as being “deliberate and governed by reason”. However, more recent research seems to suggest, that the process of ethical decision making is not determined by reason alone, but that other previously ignored concepts, such as biases (Messick & Bazerman, 1996), emotions (Tenbrunsel and Smith-Crowe, 2008; Warren & Smith-Crowe, 2008) and intuition (Woiceshyn, 2011), are also significantly contributing factors. Watley (2014) also supports this premise and challenges ethical judgement as being a purely rational process. In his view, ethical judgements can happen under the control of emotions in a quick and intuitive way, with rationalization taking place after the decision has been made.

With regard to biases, Messick and Bazerman (1996) mention that psychological research has evidenced a number of systematic weaknesses in the way individuals process information and engage in decision making. Such weaknesses can be in the form of inaccurate risk estimations or evaluations based upon prejudiced information and can lead to poor ethical decisions. Biases, which can significantly alter the decision making process, have been identified in the way individuals view the world, in the way they view other people and finally, in the way they perceive themselves.

In what they call “theories about the world” (p. 10) Messick and Bazerman have recognized the following occurrences as biases: simplifying decisions by ignoring undesired consequences or ignoring low probability events, overlooking the possibility that others will find out about a certain unethical act, underweighting future events, undervaluing how others will be affected, as well as who these others are and finally, a poor judgement of risk.

With respect to how individuals view others, Messick and Bazerman (1996) label such biases as “theories about other people” (p. 15) and mention ethnocentrism and stereotypes as contributing factors. Broadly viewed, these biases imply the point of view that one’s own group or culture is superior to the others, while also holding specific unsubstantiated beliefs and opinions about certain groups of people.

Lastly, Messick and Bazerman (1996) label “theories about ourselves” (p. 17) as a biased perspective of how an individual views itself. Identified as relevant were illusions of superiority and favourability, where one tends to exaggerate the positive view of the self; illusions of optimism and control, where one tends to view itself in an unrealistic optimistic way relative

to others, while also having the illusion of being in control of the future; and finally, an overconfidence over how knowledgeable and also ethical one really is. Although one could well argue that these individual characteristics do not apply to people with low self-esteem, Messick and Bazerman (1996) argue that senior decision makers inside organizations are usually not individuals characterized by as such.

It is important to note though, that Rest (1986) has in fact discussed the role of intuition, biases and emotions. In the description of moral awareness, the first component of his model, Rest (1986: 6) mentions that psychological research has evidenced “that a social situation can arouse strong feelings before cognitive encoding.” According to Rest (1986), people may feel instant feelings of liking or disliking of someone before really reflecting on that social situation. He labels these impressions as “gut feelings” (p. 6) and remarks that they can interfere with the judgement of an individual. This is similar to the discussion of biases provided by Messick and Bazerman (1996). Moreover, Rest (1986) adds that mood can have an effect on moral intent (the third component of his model) and can therefore also play a role in ethical decision making. He indicates that, when in a good mood, individuals tend to be more positive, generous and cooperative. A good mood can also highlight the benefits of helping and cooperating and is in contrast with a bad mood, which will bring forward the disadvantages of helping and cooperating (Rest, 1986).

The main idea that needs to be taken when considering emotions, biases and similar constructs is, that as Tenbrunsel and Smith-Crowe (2008) suggest, they impede rational decision making processes and therefore, reason alone cannot be the sole determinant of ethical decision making, in the apparent way suggested by traditional models. On the one hand, Tenbrunsel and Smith-Crowe (2008) are right in saying that, while not to be discounted, reason should be viewed as one of several components of the decision making mechanism. On the other hand however, their argument that the classical models failed to address these issues, is not entirely valid. As shown, Rest (1986) has mentioned possible effects from biases and emotions and moreover, he didn’t insist on any specific sequence, but only *proposed* one. What does seem plausible, is the assumption of questioning research methods, a fact also raised by Tenbrunsel and Smith-Crowe (2008). Besides the apparent point that these variables have received significant attention from researchers only as of 2004 (Craft, 2013), the overall quality of research in business ethics is questionable (Crane, 1999).

4.3.2 Future Directions in Ethical Decision Making

Woiceshyn (2011) claims that advances in cognitive neuroscience and neuroethics coupled with the general decision making literature, have brought forward new outlooks in the field of ethical decision making. Accordingly, she proposes a dual processing model of ethical decision making. This new direction in research considers that on some occasions, decision makers do not engage in reasoning activities prior to behaviour, but only afterwards. On the one hand this idea is similar to the learning component found in most classical models of decision making, where the evaluation of actual behaviour will provide feedback to the personal characteristics of the decision maker and will therefore influence future behaviour. On the other hand however, recent research suggests that, occasionally and after being confronted with similar situations for several times, moral reasoning does not occur at all during the initial stages of the decision making process, as it is being replaced by intuition. Decisions are therefore considered to be processed automatically and intuitively without conscious awareness and with rationalizations for moral judgements occurring only afterwards, in part due to reasons of social approval and for justifying decisions (Woiceshyn, 2011). As already mentioned, reason does not need to be completely disregarded. This intuitive decision making process can only occur after the individual has been confronted with a similar situation several times. Therefore, as Tenbrunsel and Smith-Crowe (2008) suggest, the important question which needs to be answered is not *whether* ethical decision making is a rational or emotional process, but *when* it is the one, *when* it is the other and *when* it is a combination of the two.

Some authors (Tenbrunsel & Smith-Crowe, 2008; Warren & Smith-Crowe, 2008) therefore propose that researchers should take advantage of technologies like functional magnetic resonance imaging. For instance, Warren and Smith-Crowe (2008) claim that fMRI technology was able to demonstrate a relation between emotional brain activity and reaction to ethical dilemmas. Furthermore, Tenbrunsel & Smith-Crowe (2008: 561) propose the importance of what they refer to as “decision frames”, meaning “the type of decision that individuals believe they are making [...]”. If a decision is coded as an ethical one, ethical considerations will be part of the decision process; conversely if the decision is coded as a business decision or a legal decision, other considerations such as profit or compliance might be more central to the decision process.” Referring to emotions like guilt, shame or embarrassment, Warren and Smith-Crowe (2008) suppose that on some occasions, individuals did not know that they were

acting unethical, implying that such decisions were based only on business or economic considerations.

Certainly, there remains a lot of work to be done on the topic of ethical decision making. Although far from being easy, the possible benefits could make the effort be worthy. It can be assumed, that by knowing what exactly happens inside an individual's brain before deciding for unethical behaviour, solutions could be figured out that could prevent such behaviour from happening. Such information might be applicable, for instance, in education.

5. Business Ethics and Education

The first part of this thesis presented the main theoretical backgrounds of business ethics, as well as a number of problems with the current business environment and accordingly, the main reason behind the importance of business ethics. Hence, these two topics provide the support upon which the current section of the thesis will be built. In order to try to separate business ethics from associations with terms like irrelevance or oxymoron, this thesis will propose a holistic framework, which will be labelled as *the virtuous cycle of business ethics*. In the remaining part of the thesis, its components will be discussed in greater detail, before finally outlining the framework. This chapter is centred on the first component – business ethics education.

The recent corporate scandals and the ongoing financial turmoil have caused business schools to show greater interest to teaching business ethics (Sims & Felton, 2006; Van Wart et al., 2014). On the one hand, one could indeed view this fact with a critical eye and point out that similar with the general situation of business ethics, its importance at universities is mostly also a reactive measure taken due to ethical failures. On the other hand however, these reactive measures could also be interpreted as acknowledgment that business schools do have a responsibility in corporate misconduct and that at the very least there are some efforts in trying to improve this situation. This chapter will thus provide a discussion about the importance of

business ethics education as well as an overview of the main possibilities of teaching the subject at universities.

5.1 Why teach business ethics?

The reactive measure of business ethics in general and business ethics education in particular is indeed problematic. However, the problem is aggravated by the fact that this reactive attitude seems to have been taking place for quite some time. One could only have a look at several events of the last decades and how they sparked debates about the role of business ethics education. In 1987 Baxter and Rarick mention several corporate scandals from the 1970's, among which the Ford Pinto case or the controversy surrounding Four Seasons Nursing Centers of America, Inc.⁹, scandals which according to them have drawn attention both from media and academia and have raised debates regarding the teaching of business ethics. Roughly a decade later, Lane (1995: 571) describes the 1980's as the "Unethical Eighties" and enumerates examples such as the marketing of unsafe products, tax evasion by large corporations, misrepresentation in the banking industry, insider trading, or pollution of the environment. Lane (1995) adds that during the early nineties, one reaction to these issues, has been a greater interest for business ethics in the business and academic communities.

Unfortunately this pattern continues into the present and, as already mentioned, the early 2000's contribute with examples like Enron or WorldCom, while the final part of the decade is the beginning of a period characterized as "The Great Recession" (Mian & Sufi, 2010). Beverungen and colleagues (2013) consider that while business schools have indeed managed to shape talented traders, this has come at the cost of neglecting issues like ethics and social responsibility and therefore, business schools are in part also responsible for the ongoing financial crisis. Van Wart et al. (2014) also suggest that poor teaching might have contributed to the current situation of the economy and add, that business schools seem to prepare students who care more about winning than about respecting rules and laws, with the latter two having their importance limited to the degree of not getting caught. Similarly, Alsop (2006: 11)

⁹ Jack L. Clark, the founder of the company defrauded its shareholders with 200 million US \$. He was sentenced for 9 months in a minimum security prison and was able to retire afterwards to an 1800 acre ranch (Baxter & Rarick, 1987).

believes that beyond just neglecting ethics, many business schools have “encouraged students to go to practically any lengths to increase corporate profits and short-term shareholder return.”

Moreover, Rutherford et al. (2012: 174) mention a survey carried out by Portfolio.com with the aim of creating a list “of the 20-worst CEOs of all time”. The survey shows that most CEOs have been included in the list due to unethical activities as opposed to poor management skills and furthermore, 9 out of the top 10 have been involved in corporate scandals. Waples et al. (2009) consider the current environment where business takes place to be a further reason for the importance of teaching business ethics. They suggest, that the global and mostly service based economy, together with the available technology, imply that fast paced changes and complex decisions, with possible far reaching outcomes, have become a part of daily work. It is thus quite obvious that business schools play an important role in shaping the corporate leaders of tomorrow and without doubt, part of this role is also the responsibility for ethical considerations (Alsop, 2006).

According to Collins (2006), the ethical knowledge, which people gain in high school, is insufficient for being able to tackle the complex ethical problems which arise every day in the corporate world. Wines (2008) adds, that due to the dominant role played by the economy in our society, students of business should not be lead into erroneous decision making by one-dimensional thinking. Moreover, some authors have mentioned that business and economics students tend to be less ethical than students in other disciplines (Wines, 2008; Rutherford et al., 2012). Evidence has been found that business and economics students are more likely to free-ride, are more corruptible, have a stronger attitude toward greed (Rutherford et al., 2012) and are more likely to cheat (Green & Donovan, 2010). According to Wines (2008), business students show the lowest levels of moral reasoning skills and they are the only ones to show an actual decline in these skills, as their study progresses. Furthermore, Rutherford and colleagues (2012) mention that students showing unethical behaviour during their studies are likely to continue this type of behaviour at work as well. Alsop (2006) also shows that as part of their efforts to improve their ethical image, more companies are showing an interest in the ethical backgrounds of applicants during the recruiting process.

Despite persistent corporate misconduct and the complexity of the business environment, Sims and Felton (2006) state that, in the United States, various individuals including students, professors and business professionals continue to question the relevance of teaching ethics to adults. A similar statement can be found in Wang and Calvano (2015), who state that there are

both scholars and professors who are questioning the effectiveness of business ethics education. Although Sims and Felton (2006) support the idea of business ethics education, they do acknowledge that this is a fair question, because if such courses don't provide significant changes, they will indeed offer no value. Moreover, despite evidence from psychologists that moral development continues into adulthood, many opponents of business ethics education, point out that it is simply too late to teach ethics to students (Alsop, 2006; Wines, 2008). Alsop (2006) considers this to be a too simplistic view. While indeed, by the time individuals enrol to university, they more or less already have an ethical foundation from their individual backgrounds (Baetz & Sharp, 2004), the role of business ethics education is not to simply teach right from wrong, but to provide an understanding for the complex ethical issues, which are present in the business environment (Alsop, 2006).

Other barriers to implementing business ethics education are mentioned by Alsop (2006) who states that some professors feel pressured to find time for ethical aspects in an already full curriculum, while some students complain that ethics courses are too philosophical and pedantic. Baetz and Sharp (2004) add that unlike traditional subjects being taught at business schools, a course in business ethics often requires the discussion of controversial and personal topics, which might make students feel uncomfortable. The problem is further complicated by the fact that studies which have reviewed the effectiveness of business ethics education, show ambiguous findings, implying no consistent empirical support for the effectiveness of such education programmes (Halbesleben et al., 2005). However, Van Wart et al. (2014) assume that the overall weak effort taken in implementing business ethics education is a reason for these results, implying that weak efforts will yield weak effects.

According to Collins (2006), a different problem faced by business ethics education is the peripheral nature the subject has in business schools. He considers (p. 333) that some business ethics professors "feel isolated and not respected by their [...] colleagues", partly due to the perception that business ethics is questioning the moral basis of other business disciplines.

Nevertheless, some signs of change towards a better direction do exist. Sims and Felton (2006) enumerate as evidence, a general increase in the hiring of professors and faculty specialized in the field and a revision or new planning for the role of business ethics in their curricula. Moreover, they provide a concrete example with the Harvard Business School which "was embarrassed" by the fact that several executives involved in recent corporate scandals are former students of the school. The reaction in this case has been to extend the mandatory ethics

course form a duration of three weeks to a whole semester and to include concrete examples from these scandals in the content of the course (Sims & Felton, 2006: 299).

Clearly, there is a need to teach business ethics and this realization should have been a result of all these reactive measures of the past decades. One final realization should be that there is a need to find and establish an effective way of teaching business ethics. For instance, Bishop (2013) thinks that one reason for this continuous reactive mode is the lack of a clear standard in how to deal with business ethics at universities. Accordingly, an overview of what has been done and what seems to be working with this regard, will be given in the remaining parts of this chapter.

5.2 How to Teach Business Ethics?

Next to the debate for the relevance of teaching business ethics, Waples et al. (2009) mention that a different but not less difficult question which needs to be answered, is how to effectively prepare students to face moral problems in the business environment, or in other words, how to best organize a business ethics education programme. Wines (2008) adds that there are more differing opinions regarding *what* to teach in a business ethics course, versus the question of *why* to teach business ethics.

Broadly viewed, there are two main possibilities for teaching business ethics at universities - one is to have a separate standalone course, which itself can be elective or compulsory (Alsop, 2006), while the other is to integrate ethical concepts into several or all courses of the curriculum (Baetz & Sharp, 2004; Alsop, 2006; Rutherford et al., 2012).

Rutherford et al. (2012) mention that either approach to teaching business ethics has both advantages and disadvantages. Integrating business ethics into the whole curriculum implies that professors from the various disciplines need to have both an adequate knowledge and an interest for ethical concerns. Furthermore, simply integrating ethical topics into other subjects can become a problem, if students do not possess an elementary knowledge base of ethics and are therefore not capable to fully understand and effectively learn the discussed topics. Baetz and Sharp (2004) acknowledge that the standalone alternative is easier from an administrative point of view and add, that it can imply credibility and importance if taught by senior faculty members as a compulsory course. However, they also point out to the limitation of not being

able to offer an in-depth coverage of ethical issues related to specific subjects. Alsop (2006) considers, that if there needs to be a choice, the integration method is better than only having a standalone course, albeit it is more challenging to do so. Rutherford et al. (2012) as well as others (Collins, 2006; Van Wart et al. 2014) therefore propose, that the best alternative is to have both a standalone introductory course, as well as integrating ethical topics into the curriculum. According to Van Wart et al. (2014), the whole concept of business ethics is too broad to be taught in one single course. Therefore, they are also in favour of having both an introductory standalone course and an integration of ethical topics into at least several subjects, like accounting, marketing, management, or finance, subjects preparing students for professional activities which Van Wart and colleagues (2014) claim can offer opportunities for unethical behaviour.

Waples et al. (2009) point out three issues which need to be resolved in order to achieve effectiveness when organizing a business ethics course. These are the goal of the course, the discipline from which business ethics instruction should originate and the method of instruction. A common problem with all three points is the existence of differing opinions and the absence of a clear and definite alternative. When considering the goal of instruction there is a general acceptance that the main point of teaching business ethics is to shape ethical students and therefore to create better and morally stronger professionals. However, there is no clear alternative for how to achieve this goal. Waples et al. (2009) mention that several scholars stress on the importance of moral awareness, others on improving moral reasoning, while others focus on ethical decision making and study actual behaviour of individuals. This leads us to the second issue of finding the right discipline of origin for business ethics, or in other words to determine who should actually teach these courses. Waples et al. (2009) state that traditionally, business ethics has been taught by the philosophy department, in part because it is philosophers who have an adequate understanding of concepts like morality and ethics. However, since the topic in question is *business* ethics, Waples et al. (2009) add that a contribution of people with a background in business is also necessary in order to be able to understand the applicability of moral issues in a business environment. Furthermore, the fact that some scholars evidence a focus on behaviour and ethical decision making, implies, that people with a psychology background also have a word to say. Waples et al. (2009) propose that a collaboration of the various fields should be more beneficial.

According to Wines (2008), a traditional business ethics course consists of topics like moral philosophy, corporate social responsibility, as well as discussions of ethical dilemmas. He

labels these as “the three traditional pillars of business ethics” (p. 484), but stresses that they alone are not sufficient for sustaining an effective course. Accordingly, Wines (2008) posits that in addition to these three pillars, an efficient business ethics course should also include topics like moral psychology, organizational design and behaviour, motivational theory, as well as a clarification of how society, business and the law interact.

However, Wines (2008) doesn’t really go into details and does not provide concrete examples for how to deal with each new pillar. For instance, regarding the topic of moral psychology, he simply mentions a brief history of the contribution of Kohlberg and Rest, as well as an enumeration of several well-known corporate scandals. Wines (2008) ends the topic by saying that employees who have taken part in corporate misconduct cannot be characterized as true evil individuals and therefore leaves us with the question: “How can it be explained?” (Wines, 2008: 489). While indeed problematic and far from being complete, the theory of ethical decision making should help answer this question.

The second and third topics are treated by Wines (2008) in a similar way. More details, albeit still not clear enough, are provided for the fourth proposed topic, namely the interaction between society, business and law. Here Wines (2008) provides an interesting idea, which is to integrate several topics, like law, socio-political theory and public policy, in such a way as to make the progress of humanity understandable to the student. Indeed, this sounds very promising on paper, but the biggest challenge is to find a practical and effective way of actually transforming it into reality. The first challenge would be to find the right people, who are capable of teaching these topics. Because the proposed subjects are not only diverse, but also complex, the only feasible option appears to be in the form of a collaborative effort between several academics or professors, each specialized in one field. Should this problem be solved, would still leave the challenge of organizing the course in an effective way, particularly to make sure that students will not lose interest and will actually learn something. This last idea comes from the assumption that complex topics like political philosophy or ethics cannot be force fed into students (Collins, 2006). Although the following thought is certainly anecdotal, one can assume that people who show a genuine interest for such topics, probably do not choose to study business, but philosophy, political science, sociology or other similar subjects. Therefore, these topics would need to be tailored in a way to keep business students interested.

Hence, a different reason for the ambiguous findings, concerning the effectiveness of business ethics education, might be related to the fact that there is a lack of a consistent method on how

to approach the subject. An additional difficulty is constituted by textbooks covering the discipline of business ethics, as well as other subjects where ethical aspects should or could be integrated. As Baetz and Sharp (2004) point out, similar to the overall lack of consistency in how to offer a business ethics course, textbooks are also plagued by a lack of clarity on how to deal with ethical issues. In order to try to shed a bit of light into this topic, several possibilities and propositions made by various scholars, will be discussed in the remaining part of this chapter.

5.3 Organizing a Business Ethics Teaching Programme

As a business ethics professor herself, Koehn (2005) questions whether professors are also partly to be blamed for the apparent lack of effectiveness in business ethics education. She states that the main purpose of teachers is to be able to have an influence upon those to whom they teach and adds, that the ones who don't share this view are either "not very reflective or ought to be in a different profession" (Koehn, 2005: 137). Furthermore, Koehn (2005) mentions that teachers of business ethics should not hide behind simple excuses like, students being unteachable, or students being ill-advised by other business professors, but to try harder and specifically, to try to improve their ways of teaching. Teaching ethics in general and business ethics in particular are indeed challenging tasks, but nevertheless, what Koehn probably tries to say is, that just because an activity is posing difficulties, it doesn't mean that it needs to be automatically abandoned. Quite the contrary, changes and improvements need to be figured out, especially in such a case, where the possible value to be extracted is of great significance.

Furthermore, according to Rutherford et al. (2012) it is not that people who choose to study business and economics are unethical individuals in general, but that they absorb these traits during their studies, mostly by learning about the dominant economic principle of self-interest. Thus, they suggest (p. 175) "that the entire paradigm underlying business education needs to change if we are to overcome the ethical difficulties we are currently facing." However, other authors, like Koehn (2005) or Collins (2006) view the problem with self-interest differently. Koehn (2005) considers that the problem lies in people's self-conceptions, because they continuously try to trick the system, in order to achieve what they *believe* to be in their self-interests. Accordingly, she thinks that many individuals have a flawed understanding of what their self-interest actually is and adds (p. 141), that this difficulty can only be overcome with

“radical changes” in human behaviour. According to Collins (2006), this is the point where education comes into play, as one of his objectives as a business ethics professor is, to try and show his students that behaving unethically for short term achievements, will ultimately not be in the self-interest of any company.

There are various propositions for how to organize a business ethics course. Some authors like Daryl Koehn (2005) or Denis Collins (2006) provide concrete examples which they claim to be successful. According to Collins (2006), there are many innovative possibilities to use in business ethics education, ranging from in-depth case study analyses and the use of novels, or movies, to organizing ethics discussions with corporate ethics officers and convicted white collar criminals.

Collins (2006) criticizes the traditional type of education, where a professor fills passive students with information, which is then withdrawn from them through an exam at the end of the semester. This idea can be echoed by the previously mentioned opinion of Koehn (2005) who stresses on the importance played by the professor in general when teaching, but in particular when teaching a subject like business ethics. Furthermore, Collins (2006: 350) asks for an “alternative style of education [...] wherein students participate in experiential exercises and dialogue with each other under a professor’s supervision, which [...] provides deeper levels of understanding.” Accordingly, the way he is teaching ethics to business students is indeed different from the traditional teaching style. Collins (2006) also points out to what a course in business ethics should not be about. He considers that the course should encourage debate about right and wrong, but stresses on the point that this debate should not end with the students simply accepting the view of the professor, or in his words (p. 335), the course should not create “ethical anarchy”.

In *Taking Business Ethics Seriously*, Collins (2006) provides a detailed description of the way he has organized his business ethics course. It is not in the scope of this thesis to delve too deep into such details, but some aspects will be presented, so that the reader can form an idea of Collins’ methods. The general progression of the course takes a form inspired by Kohlberg’s stages of moral development. Collins (2006) assumes that most students enter his course as egoists and tries to make them evolve towards deontology. Indeed, Treviño (1992) has shown that cognitive moral development continues into adulthood and can be positively influenced by higher education. Moreover, Ashkanasy and colleagues (2006) state that there is consistent support for the association between higher levels of cognitive moral development and ethical

behaviour. Rather than imposing higher moral ideals and attacking egoism, Collins (2006) begins the course by defending this concept and relates it to Adam Smith's idea of economic decisions driven by self-interest. Accordingly, Collins (2006) tries to show his students, that an ethical viewpoint is not an obstacle in the progress of business, but that it is actually "in a company's financial *self-interest* to behave ethically" (p. 337, emphasis added). As already shown, even the strict shareholder approach to business as proposed by Friedman (1970), would conclude that unethical behaviour is not in the best interest of any company.

Collins (2006) tries to illustrate this idea to his students via debates of various ethical dilemmas, as well as by reviewing newspaper articles related to current events of corporate misconduct. The students are asked to analyse these situations from the points of view of all stakeholders, while using various ethical theories and are then encouraged to build their own ethical frameworks accordingly. Besides debates and writing assignments, Collins (2006) also undertakes various active initiatives with his students like volunteering for the community or for small organizations.

Moreover, Collins (2006) is also organizing collaborative programmes with professors of other disciplines in order to help with the integration of business ethics into other disciplines of the curriculum.

A different topic which should be addressed in business ethics education is an understanding of money (Koehn, 2005). For instance, Neubert and colleagues (2009) claim that as professionals, managers pursue two types of goods. One type can be identified as external goods, with examples like money or reputation, while the other, internal goods can be exemplified by enjoyment of work, or satisfaction over accomplishments and a job well done. Moreover, Neubert et al. (2006) assert that if an individual will show greater interest in pursuing external goals, the individual will risk nurturing an amoral or immoral character. Koehn (2005) is trying to address this issue in her business ethics class. She claims that her main aim is to get her students to know themselves better. As already mentioned, Koehn (2005) believes that many people fail to recognize what actually is in their self-interest and she therefore tries to change this. One of her methods is to discuss the topic of money with students and provide them with a better understanding of this concept. Consistent with Aristotle's virtue ethics, Koehn (2005) tries to show that money is not the ultimate goal an individual tries to achieve, because money is just a means to an end and not the end itself.

The main point which can be drawn regarding the topic of teaching business ethics is, that the approach and style of instruction are essential in order to provide relevance. If the course only consists of force feeding students with concepts like utilitarianism or deontology, so that they can write an exam at the end of the semester, then the course is indeed nothing more than a waste of time both for students and professors. In such a case most students would probably learn the topics by heart to pass the exam and then never come across them again. If on the other hand, the course would provide an incentive for reflection and would make the student more aware of the impact the global economy can have on society, then value could indeed be extracted from teaching business ethics.

6. Corporate Ethics Programmes

The media attention and public scrutiny attracted by corporate misconduct has put business organizations into a position of having to defend their ethical integrity. Continuing the tradition of business ethics as a reactive measure, the response has been the implementation of corporate ethics programmes (Jose & Thibodeaux, 1999), which can be understood as formal measures taken by business organizations with regard to ethical aspects and include codes of ethics, training programmes, whistle blowing policies, or the establishment of ethics committees as well as the appointment of ethical officers (Crane & Matten, 2007; Kaptein, 2011). Such programmes can be labelled as the ethical infrastructure (McLeod et al., 2014), business ethics management (Crane & Matten, 2007) or the institutionalization of business ethics within an organization (Jose & Thibodeaux, 1999; Vitell & Singhapakdi, 2008). These instruments however have not prevented further corporate misconduct from happening and as a result legislative measures have also been undertaken mainly in form of increasing fines (Bertels et al., 2014) and stricter regulations for many economic agents (Rockness & Rockness, 2005). For example, as of 1991 under the Federal Sentencing Guidelines for Organizations, in cases of evidenced corporate misconduct in the United States, companies can have reduced sentences, if they can prove that they have implemented an ethics programme prior to the offence. Furthermore, in absence of such programmes, the board of directors can be held responsible for failing to properly manage legal and ethical behaviour within their organization

(Schwartz, 2004). Not so distant in the past, after the wave of accounting scandals at the beginning of the 2000s, the Sarbanes-Oxley Act has been enacted in the United States requiring publicly traded companies to disclose in their annual reports whether they have a code of ethics and if not, to provide reasons why not. These legislations along with the fact that the New York Stock Exchange as well as the NASDAQ stock market require similar disclosures from companies wishing to be listed, have practically forced publicly traded corporations in the United States to adopt formal ethics programmes (Schwartz, 2004; Crane & Matten, 2007). All these facts, of course, support the criticism that business ethics is mainly a reactive as opposed to a proactive measure, as for instance hinted by Bishop (2013).

This chapter will have a look at two implementation methods of corporate ethics programmes and will try to show that without an adequate ethical culture, these programmes can be rather ineffective and at worst, they can serve as instruments of window dressing. Indeed, because corporate misconduct continues to prevail, Ferrell and colleagues (2005) consider ethics programmes to be controversial, but they argue that their ineffectiveness is mostly due to poor application. With the inclusion of the variable of corporate culture, the implementation of ethical policies by organizations can be grouped into two categories: formal or explicit measures (codes of ethics, training programmes, ethics committees, etc.); and informal or implicit measures (communication, exemplary behaviour by management, or the broader context of organizational culture). As suggested by several authors (Jose & Thibodeaux, 1999; Webley & Werner, 2008; Kaptein, 2011), this grouping is important, because only if both aspects are well implemented, one can expect actual ethical behaviour from an organization.

6.1 Codes of Ethics

According to Jose and Thibodeaux (1999) the most widely used formal ethics programme is the code of ethics. Schwartz (2001: 248) defines it as “a written, distinct and formal document which consists of moral standards used to guide employee or corporate behaviour.” In a later paper, Schwartz (2004) further elaborates on his definition and divides it into three components. He considers moral standards to be the first component, meaning that the code should provide a guideline for employee behaviour by delivering ethical principles and aspirational ideals. The second component refers to whom does the code apply, meaning to its employees with the consideration that corporate behaviour is in effect also individual behaviour

and that behaviour violating the code, should be viewed as behaviour against the corporation. The third and final component simply refers to the fact that the code is a written, distinct and formal document (Schwartz, 2004).

6.1.1 Form and Content of a Code of Ethics

Schwartz (2001) states that although the code of ethics is virtually present in all corporate ethics programmes, there still is a confusion as to what the actual content of the code is about. Adding to the confusion are the different names which have been attributed to this document. Besides codes of ethics, these instruments have also been referred to as codes of conduct, codes of practice, corporate credos, mission statements, or values statements (Schwartz, 2001). Stevens (2007) provides some clarity to this issue and remarks that, while mission statements show the objectives of the company, codes of ethics should articulate the value system of an organization and should therefore provide guidance under what ethical considerations these objectives need to be reached.

Martens and Day (1999) point out to the common mistake in code design of using a too complex and legal-termed language, which is difficult to understand and does not provide relevance to the average employee. Also referring to code content, Webley and Werner (2008) add that the code of ethics can be expected to be ineffective if it is too narrowly designed. They provide examples of codes only containing a specific set of issues like conflicts of interests, gifts, or the usage of company assets, without addressing all levels of the organization and also excluding expected commitments to stakeholders. A further issue consists in designing a code by simply enumerating several normative rules, without providing explanations or guidance for employees in how to act in ambiguous situations (Webley & Werner, 2008).

Mixed views exist regarding employee involvement in the code creation process. Webley and Werner (2008) postulate, that if a code is to influence behaviour, employees need to be involved in its development. They argue that the exclusion of employees from the design process would result in a code that fails to cover all areas of ethical issues and that employees would not take the code seriously, as it might be irrelevant for their own experience. However, the in-depth interviews conducted by Schwartz (2004) show a different opinion from employees. According to his findings, employee involvement in the creation or revision of the code was not regarded

with importance by respondents. Despite this, relevance and realistic demands within codes were found to be important. Thus, Schwartz (2004) concludes that employees should be involved in developing the code of ethics, not in order to gain a sense of ownership, but to have the certainty that a relevant and realistic document is being created. Involving all employees in designing and formulating the code does indeed seem unrealistic and unpractical. A solution might be to involve managers of different organizational units, who could in turn gather feedback from their subordinates during meetings and discussions. This option would at least provide the assurance that no departments are being ignored and would thus avoid the risk of excluding issues which are specific to select units.

6.1.2 Code (In)effectiveness

Next to the confusion of what exactly is and how to design a code of ethics sits the (more serious) debate whether such codes are effective or not (Schwartz, 2001). In an inquiry into the study of corporate codes of ethics, covering more than a decade of research, Helin and Sandström (2007) echo a similar statement. Their conclusion is that (p. 263) there “still is a great deal of uncertainty around whether [codes] are effective in influencing the ethical climate in organizations”.

Schwartz (2004) claims that many studies which investigate the effect of codes of ethics do not provide a proper definition for what effectiveness really means, other than having an influence on behaviour. Therefore he proposes the following components for measuring the effectiveness of a code:

- The code needs to address both employees and managers, who in turn have to act according to the rules of the code.
- Non-compliant behaviour needs to be either reported or addressed by the company with the aim of preventing its reoccurrence.
- The code must at least be in part the reason for compliant behaviour and / or reporting of non-compliant behaviour.

Furthermore, from the 22 studies he has reviewed, Schwartz (2004) has identified the most common recommendations for code effectiveness, which include: a positive tone, the provision of examples, an appropriate length and relevance with regard to code content; employee involvement and acceptable objectives for code creation; support from management, training and reinforcement with regard to code implementation; and finally the provision of anonymous phone lines for reporting violations, enforcement and linking the code to performance reviews with respect to code administration.

Several models of ethical decision making, like the contingency framework of Ferrell and Gresham (1985), or the person-situation interactionist model of Treviño (1986), include the code of ethics as one organizational variable with an impact on employee behaviour. As shown in chapter 4, empirical reviews of research on ethical decision making tend to support the effect of formal programmes like the code of ethics, but the overall results are mixed. Similar results are pointed out by Schwartz (2001; 2004). Out of 22 studies reviewed by Schwartz (2004) 10 show that codes are effective, 2 show a weak relationship and 10 show no significant relationship. Nevertheless, Schwartz (2001; 2004) adds that rather than dismissing codes altogether, these results should be viewed as inconclusive, part of the reason being the methodology or the focus of the research. Moreover, Warren and colleagues (2014) point out that data like ethical perceptions and behaviours of employees are extremely difficult to be obtained in an accurate form due to their sensitive nature. Also in relation to this point, Helin and Sandström (2007) show that most studies investigating codes of ethics consist of either questionnaire surveys or an analysis of the actual code content. The problem with business ethics research has already been addressed in this thesis and unfortunately it indeed seems that in many important aspects of business ethics, the available results are based on questionable methods of data collection and as a result, there are very few if any conclusive opinions. While this indeed constitutes a problem, this is only part of the reason for an inconsistent view regarding code effectiveness, the other being poor implementation as well as a deficient corporate culture.

Jose and Thibodeaux (1999) point out, that due to their nature, codes of ethics can be used as a benchmark for the ethical performance of a company. Webley and Werner (2008) argue that although necessary, corporate codes of ethics alone are not sufficient for guaranteeing compliance to ethical norms within a company. They provide examples of various companies, like Enron or Shell, which had codes of ethics, but nevertheless have been involved in serious corporate misconduct. Therefore, they postulate that a gap exists between the apparent ethics

policies adopted by some companies and the reality as evidenced by their practices. Webley and Werner (2008) consider that poorly implemented ethics programmes in general and weakly designed codes in particular, as well as a flawed corporate culture, are the main reasons behind this gap. Nevertheless, there is also a different example with the case of WorldCom, a company which prior to its accounting scandal did not have an ethics programme, with the very small exception of a phrase in its employee handbook, which contained "... fraud and dishonesty would not be tolerated" (Schwartz, 2004: 324). In a paper analysing the effectiveness of codes of ethics in relation to the sensitive issue of child labour, Kolk and van Tulder (2002) conclude that codes can be useful in the sense of setting up the guidelines under which an outsourcing company will act when faced with child labour, but that due to the complexity of this issue, codes alone will not be sufficient to improve the situation, as further policies like independent monitoring and arrangements for the affected people are also needed. Hence, there is no conclusive evidence neither for code effectiveness, nor for its ineffectiveness.

It is though reasonable to assume, that at the very least, codes of ethics can help with the communication of ethical principles and therefore they have the potential to raise ethical awareness within an organization. Referring to the legislative measures taken in the United States, Schwartz (2004) remarks that, government regulators believe that formal ethics programmes can have a potential positive impact on the ethical behaviour of economic agents. However, as Helin and Sandström (2007: 254) point out, to believe that by simply handing out a code, ethical behaviour will be guaranteed is not only misleading but also "a reductionist view of an implementation process that is highly complex." Indeed, if codes are simply forced upon employees by managers without proper support, they will not be taken seriously and will not be accepted as being part of organizational culture (Stevens, 2007).

6.2 Ethics Training Programmes

A different formal measure taken by business organizations in trying to prevent unethical behaviour is the establishment of ethics training programmes for its employees. Sekerka (2009) considers that the strong competitive nature of the global economy creates pressure for employees to reach their performance targets, while at the same time to consider the complex ethical issues which arise during this process. Therefore, Sekerka (2009) stresses on the importance behind organizational ethics training programmes, which she views as a

responsibility of any company willing to make sure that its employees understand and apply both regulatory rules and ethical practices in their day-to-day work activities.

According to Jose and Thibodeaux (1999) the most covered topics by such training programmes are conflicts of interest, personal conduct, public comment, use of official information and the responsibilities of managers. Jose and Thibodeaux (1999) as well as others (Schwartz, 2004; Stevens, 2007) propose that the content of the code of ethics should be reinforced during training, so that employees can have a better understanding of the code and of its applicability in their daily activities. Crane and Matten (2007) add that companies have two possibilities when considering ethics training, namely training offered in-house by their own personnel, or externally either through consultants or in cooperation with universities. No specific details are provided for either method, but collaborating with universities appears to be a beneficial activity both for employees and students. It has already been discussed that business ethics education needs to be offered in different ways from traditional teaching methods, at least if positive effects are desired. Therefore, it can be assumed that business students could benefit from the interactive nature of such events, as well as from gaining an insight from employees who are confronted with real ethical dilemmas during their work. Employees on the other hand, could gain a fresh perspective on the topic from students and professors, while also benefiting from the interactive nature of such events. Furthermore, Crane and Matten (2007) mention that employees can generally benefit from ethics training programmes by finding it easier to identify ethical dilemmas and by therefore being able to discuss ethical issues with more accuracy and more comfort.

Warren and colleagues (2014) consider that the main point of ethics training is to raise moral awareness. For this reason they propose the concept of “comprehensive ethics training” (p. 88), which they believe will help employees to gain a better understanding of moral concepts. Warren et al. (2014) point out that individuals are better prone to react to stimuli they understand better and therefore consider, that an increase in moral awareness could help decrease unethical behaviour. Kaptein (2011: 847) also raises the importance for clarity in ethical standards which, he considers, need to be “concrete, comprehensive, and understandable.” Furthermore, unethical behaviour can often be the result of vagueness and ambiguity, meaning that employees and managers can act unethical because they don’t understand what is expected from them (Kaptein, 2011).

Warren and her colleagues (2014) mostly build the concept of comprehensive ethics training on Albert Bandura's social learning theory, a theory which suggests that learning frequently occurs not directly through experience, but by observing the behaviour of others and its outcomes (Ashkanasy, et al., 2006). More specifically, Warren et al. (2014) use two aspects from social learning theory, which are the effect of rewards and punishments on behaviour, as well as the significance of attention and retention of the communicated content during learning. While the former concept is quite clear and has already been mentioned in this thesis, when considering the attention and retention of a communicated content, social learning theory highlights the importance of face-to-face communication and experiential learning methods. Accordingly, Warren et al. (2014) propose ethics training to be conducted face-to-face in small groups and with the usage of experiential learning methods like role plays, simulations or skill practice.

Warren et al. (2014) consider that, if taken, these actual efforts will at least minimize the perception that the ethics programme is nothing more than a window dressing instrument. Furthermore, based on in-depth interviews conducted with managers and ethics officials at 8 Silicon Valley companies, Sekerka (2009) found that although organizations have expectations that employees at all levels should act according to rules and regulations, only limited measures are being taken for ethics development. Her study found that ethics training is typically conducted via an online session, where employees have to answer a series of questions related to ethical dilemmas. Sekerka (2009) considers this to be an inconsistency between ethical expectations of organizations and the actual programme delivery. Martens and Day (1999) also raise the importance for the interactive nature of business ethics training sessions. They claim that one of the most common mistakes in implementing a business ethics programme lies in the delivery method. If training is merely a lecture or a presentation, it will fail to gain the attention of employees and hence to have a long-term effect. Indeed, a similar statement has been given when discussing business ethics education at universities. Just as in the case with students in class, simply trying to force feed employees with regulations and ethical principles will most likely be ineffective in influencing behaviour. Again, these things need to be taken into account when trying to measure the effectiveness of business ethics training programmes. Similar with the case of education, there is a need for improvement in the delivery method before forming conclusive opinions about effectiveness. Echoing the opinions of Sekerka as well as of Warren and colleagues, Martens and Day (1999) posit that business ethics training should be conducted in small groups in form of case studies or group exercises and thus having

an interactive nature for its participants. Moreover, Martens and Day (1999) also recommend that training sessions should be suited to employee's job requirements and offered differently across various departments. What this means is that not all information is relevant across all units of the organization and therefore attention is needed not to overwhelm employees with unnecessary details.

Warren et al. (2014) do not address the cost issue related to ethics training programmes, but the interviews conducted by Sekerka (2009) do point out that costs both of time and money are among the blockers for an effective implementation. Accordingly, Sekerka (2009) proposes that at least managers should be provided with face-to-face training, who in turn can have ethics related discussions within their workgroups. A different alternative, which could at least minimize the monetary side of costs, is the proposition of Crane and Matten (2007) to conduct business ethics training in cooperation with universities and their students. However, looking at the cost issue, one can raise the point of executive compensation. If large corporations not only pay their executives with millions of dollars, but also in a multiple of several figures compared to the average employee, would it then be fair to claim, that there are not enough resources for ethical programmes? Furthermore, the cost issue also raises the importance of business ethics education at universities. It is reasonable to assume that it would be much more effective to better improve the situation of business ethics education at business schools than at the stage of employment. Of course, this statement has the limitation of only including business graduates as employees.

Regarding the effectiveness of ethics trainings, Warren et al. (2014) state that empirical evidence shows mixed findings. Similar with the case of business ethics education, they suppose that these results are related to the lack of a consistent approach on how to offer training, as well as because not much longitudinal research has been conducted, in order to study the effects over time.

7. Organizational Culture

As mentioned in chapter 4 (Ethical Decision Making), the organizational context can be used as a determinant for unethical behaviour of employees (Kaptein, 2011). By now it is also clear that the organizational context consists of two components – a formal and an informal context. When referring to ethical concerns, the formal context is the ethics programme of the organization as discussed in the previous chapter. The informal context is formed by organizational culture and, as already mentioned, is essential for the effective implementation of the formal context.

The concept of culture has been mentioned on several occasions in this thesis and now, in the final chapter before the conclusion, it should be the right time to discuss organizational culture in greater detail as well as to understand its relationship with business ethics. Indeed, even the title of this thesis, *Integrating Business Ethics into Organizational Culture* contains this term. Although the greater part of this thesis is not (only) about organizational culture, its importance has been stressed more than once, specifically in the previous chapter. The reason for choosing this title is that, for business ethics to be effective, one would expect an improvement in corporate behaviour by reducing to as much as possible corporate misconduct. As already discussed, one major obstacle in the effectiveness of formal business ethics programmes is a lack of congruence between what these programmes try to communicate and what the reality inside an organization actually is (Webley & Werner, 2008). The already mentioned ironic expression of *Enron Ethics* also implies, that business ethics is much more than just a code of ethics, or other formal measures, as it is ultimately a matter of organizational culture (Sims & Brinkmann, 2003). Hence, business ethics programmes can be said to be effective only if the values they represent, are truly integrated into the fabric of organizational culture. Moreover, business ethics not only needs to be a part of organizational culture, but also to constitute its foundation. Accordingly, this chapter will provide a more detailed discussion about this concept and conclude with a proposition for an effective integration – the virtuous cycle of business ethics. However, before arriving to that point, the concept of culture needs to be finally clarified.

7.1 The Concept of Culture

Culture is mostly understood as “shared, tacit ways of perceiving, thinking and reacting” (Schein, 1996: 230). According to Key (1999) the concept of *organizational* culture is rooted in anthropology and can be defined as “a complex set of values, beliefs, assumptions, and symbols *that define the way in which a firm conducts its business*” (Barney, 1986: 657, emphasis added). Using a more concrete description, Sinclair (1993: 64) understands organizational culture to be “what people believe about how things work in their organizations and the behavioural and physical outcomes of these beliefs.”

Culture however, is not the only instrument used in organizational studies. Climate is another terminology used to describe the working environment and therefore another reason for debate within the academic community – some view them as different concepts while others view them as representing the same idea (for discussions related to this topic see Key, 1999; Kaptein, 2011; or Warren et al., 2014). Again, it is not in the scope of this thesis to join such debates. The important thing is, that there is a need for a construct which describes the organization and the concept of culture as already defined in the words of Barney (1986: 657) – “the way in which a firm conducts its business” - is sufficient for the purpose of this thesis. Therefore for the remaining part, only this understanding of the concept will be referred to.

To provide a better understanding for the concept of culture, Schein (2004) proposes that one would first have to know how culture comes into form. The point of beginning would be to analyse the relationship between culture and leadership. Schein (2004: 10) views them as "two sides of the same coin" where neither can be understood only by itself. Hence, Schein (2004: 11) believes that cultural norms define how any given group will define leadership, while the role of group leaders “is to create and manage culture”. Nonetheless, he doesn’t disagree with the most common definitions of culture which describe the concept as being shared norms and values, but views them as incomplete, or separated from the concept of group leadership. Furthermore, the concept of group also needs to be clarified, which according to Schein (2004: 11) is a “social unit that has some kind of shared history”. This shared history will create a culture, with its strength being dependent on the group’s age of existence, as well as on group member stability.

Hence, as a group forms, someone will become its leader, most likely the individual who takes the initiative of forming the group. This individual “will have certain personal visions, goals,

beliefs, values and assumptions about how things should be”, values which will be imposed on the group and which Schein (2004: 16) claims to be the “primary act of leadership”. Culture however, is not an instant result of this process. Schein’s (2004) argument follows that initially, group members will comply with the values and norms of their leader, but only if this behaviour will lead to accomplishing the group’s goals, will these values be confirmed, reinforced and most importantly, shared. “What was originally the founder’s *individual* view of the world leads to shared action, which, if successful, leads to a *shared* recognition” and thus to forming culture (Schein, 2004: 16). In case the initial founder’s vision will fail to achieve success, the group will either dissolve, or seek a different leader who will be able to steer the group towards its goals (Schein, 2004). As already stated, the strength of culture is dependent on the age of the group. Schein (2004: 16) clarifies this point and claims that, due to their continuous reinforcement over time, these shared values “will drop out of awareness [...] come to be taken for granted [and] become part of the identity of the group.” This point also explains why, once established, it is difficult to change the culture of a group.

Therefore, culture can be finally defined as “a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein, 2004: 17).

Also important to note, Schein (2004) does not believe that leadership is the only determinant of culture, but the most important. Culture is ultimately characterized by the variables which hold the group together. To clarify this idea, he states that in case the survival of the group is threatened due to a defective culture, it will be in the responsibility of leadership to identify the cause and amend the situation.

7.2 Building an Ethical Foundation in Organizational Culture

When considering formal organizations, such as corporations, Sinclair (1993) claims that there are two outlooks on how to form an ethical organizational culture. These outlooks are based on two broad understandings of the concept. One approach argues that ethical values need to be the foundation of corporate culture and that this can be achieved by the active involvement of management. Under the second approach, where culture cannot be managed, because

management itself is a part of that culture, the nurturing of ethical aspects is said to be the result of an effective inter-play between various subcultures which co-exist within the organization.

The first outlook implies a strong organizational culture, meaning that the concept is being explicitly represented by the company's values and norms. In other words, this is an expression of the company strategy, where next to economic targets, the character of the organization as well as its relationships to various stakeholders are also present (Barney, 1986; Sinclair, 1993). Hence, general aspects of culture can be outlined in the company's mission statement and other official communication channels, while ethical aspects in its formal ethics programmes, mostly visible through the code of ethics. This is the point where one would be able to pinpoint to a difference between what a company is saying and what it is actually doing, the culture of course being represented by the latter. As already mentioned, many authors (Sinclair, 1993; Stevens, 2007; Kaptein, 2011) stress that the role of (senior) management is of critical importance, because it is in their responsibility to support and reinforce these values and to lead by example. In other words, cultural mechanisms like rewards and punishments, the selection process, or the structures and rituals within the company need to reinforce the values and norms which are outlined through communication channels like the mission statement or the code of ethics. The case where the outlined values are not congruent with the actual tone set by management is at best a case where ethical principles are weakened (Kaptein, 2011) and at worst the case where ethical values and ethics programmes are used as window dressing instruments (Alsop, 2006), in order "to camouflage dubious practices" (Sinclair, 1993: 67).

The second approach proposed by Sinclair (1993) states that organizational culture is actually constituted by multiple groups of different subcultures which co-exist within the organization. Accordingly, the values and norms which impact corporate behaviour are the result of the inter-play between these subcultures. Sinclair (1993: 68) provides a definition for subcultures according to which they are "a subset of an organization's members who interact regularly with one another, identify themselves as a distinct group within the organization, share a set of [common] problems [...] and routinely take action on the basis of collective understandings unique to the group." In this case then, as Sinclair (1993) points out, the role of management becomes to understand the differences between these subcultures and to be able to identify and extract the moral values from them towards achieving organizational goals. In other words, because management itself is a part of the culture, its role moves away from the actual shaping of culture to understanding the differences within and steer the organization accordingly (Sinclair, 1993). However, even if management does not have a direct control on culture itself,

it will still have an influence on the ethical direction of the company. Just as in the optimal case proposed by Sinclair (1993), managers can also choose to identify the unethical aspects from the subcultures and steer the organization accordingly. Therefore, management still has the ability to influence whether the path of the company is taking the ethical or the unethical route.

Sinclair (1993) considers the second approach to be more beneficial towards achieving a true ethical culture, albeit at the cost of a more difficult implementation. She views the subcultural view to be more representative for real organizations and to enable more reasoned ethics by encouraging collaboration between groups. Moreover, Sinclair (1993) provides evidence from various studies that diversity within an organization can be beneficial as it fosters creativity and improves performance. This however is also coupled with the risks of encouraging anarchic behaviour and allowing deviant groups to thrive. Implementation would be then difficult mainly due to two related reasons. One the one hand, considering that an ethical direction is desired, management has to be able to identify ethical characteristics within the existent groups and maintain control over these while limiting the impact of eventual deviant groups. Second, a diversity of groups also implies the possibility for conflict of opinions. Here, Sinclair (1993) points out that in most cases the goals will be the same and it will be the desired methods to achieve these goals which will differ. Thus, she proposes that it will also be in the responsibility of management to identify common values, establish relationships between groups and reach agreement accordingly through discussions. A further advantage of the subcultural outlook is that it offers a more democratic environment as opposed to the strong culture approach, where the values and interests of individual employees are said to be rather ignored (Sinclair, 1993). For example, one of Treviño's (1986) propositions in her ethical decision making model was that democratic environments, where open communication and respecting the opinions of others are valued, can help increase cognitive moral development.

Clearly, these two approaches are dependent upon how one interprets culture. Although Sinclair (1993) states that the two outlooks define organizational culture differently, the difference actually lies in how culture works, but not in what culture is. Ultimately, whether culture can or cannot be managed, the concept simply refers to the characteristics of a company. For instance Bowie (2010) labels the culture of an organization as its personality and similarly, Schein (2004: 8-29) considers that while an individual has a certain personality and character, the equivalent for a group would be its culture. Furthermore, Schein (2004) adds that just as individual behaviour is driven by personality, the shared norms and values that exist in a group will influence how the group's members will behave. Therefore, one could interpret

organizational culture by posing and trying to answer the following questions. What kind of personality or character does an organization have? How does it behave? Or in other words, what are the true goals of the company and to what extent or under which circumstances are its employees required to reach these goals?

Accordingly, besides management behaviour, their expectations from employees are also important in sustaining a true ethical culture inside an organization. These expectations can be understood as describing the way that goals and targets need to be reached in a company and are therefore cultural mechanisms that are likely to influence behaviour at practically all levels of the organization. As Kaptein (2011) shows, unethical behaviour can result when employees are unable to reach given targets through legitimate means alone. In other words, if employees and managers feel that they do not have sufficient time, resources, information or authority to fulfil their tasks, they might resort to achieving these duties through unethical practices. Related to this issue is the also often mentioned system of rewards and punishments. For example, Ashkanasy and colleagues (2006) state that individuals will observe what type of behaviour is rewarded or punished in their organizational setting and will develop outcome expectancies accordingly. What this means is that individuals will be motivated to act in a particular way based on what they believe is expected from them.

Sekerka (2006: 91) found in her study that the linking of ethics to performance creates difficulties specifically due to issues with tracking, measurement and assessment. Indeed ethics and morals are not quantifiable and are therefore difficult to measure. However, there is only the need to look at an extreme example like Enron to simplify this problem. If management is making statements like “Do it right, do it now and do it better” – the motto of Enron’s former CEO, Jeffery Skilling (Sims & Brinkmann, 2003: 244), this can be interpreted that results are important above all other matters including ethical values. Sims and Brinkmann (2003) point out that if the message sent by management nurtures an aggressive environment where the breaking of rules is encouraged, ethical values will simply disappear from the organization. Webley and Werner (2008) also agree that setting unrealistic business objectives can be a major cause for ethical malpractice within corporations. Such problems may occur when management sets aggressive targets for cutting costs or for reaching sales goals, without proper communication of how to prioritize ethical aspects (Webley & Werner, 2008). Certainly, the other extreme should also be avoided. Probably some people are not suited for certain jobs like sales, and if they only resort to ethical behaviour, they will not be able to reach any targets at

all. This however is a different problem, related mainly to recruiting and will not be further elaborated on.

Before concluding the discussion of this topic, the following thought experiment will outline the mechanics of culture in formal organizational settings. Let one hypothetical individual, with values one could consider as unethical, be the leader of a particular business organization. Secondly, let the employees of this organization – the group – be mostly characterized by what one would deem as ethical values. Then, one could indeed argue that the values of individual group members are inconsistent with those of their leader. Following the basic argument of culture provided by Schein (2004) it would then seem reasonable to assume that, if not being able to change their leader, the group will simply dissolve. However, decision making theory claims that many people make decisions in different ways, when in the context of their organizations as opposed to their personal environments (Ferrell et al., 2005). This point could be related to the assumption that more individuals value the benefits of being employed, wish to maintain this situation and accordingly, will adapt to an already existent (organizational) culture, than those willing to go into the trouble of forming their own organizations. It does not mean that these individuals need to completely abandon their personal values, it is implied that people can adhere simultaneously to different cultures due to the way they are prioritizing their needs. Moreover, the needs, or the goals towards which this hypothetical group strives, will not be significantly different from those of their unethical leader. Ultimately, both aims are towards the generation of income, in order to sustain one's own life. While the opposing values can indeed destabilize the group, the not so different aims can reinforce it. Accordingly, group stability will be a matter of how the majority will prioritize its needs. If the leader's unethical values will satisfy the needs of its group members, they will gradually accept and adapt to these principles. The issue with misunderstanding the self-interest has already been addressed in chapter 5, while Martens and Day (1999) add that often, corporate misconduct happens due to a belief that the act was carried out in the best interest of the company. It can be further argued, that if the leader has the necessary charisma to convince group members that his or her unethical values are in the group's best interests, the group members will continue to reinforce these values. The important point to note here is that Schein's (2004: 16) "primary act of leadership", or the vision which sits at the foundation of any group, needs to be consistent with ethical principles, at least if one expects an organization with moral integrity.

Based on what has been discussed, one can indeed support the premise, that the role of management is the most important in influencing organizational culture (Neubert et al., 2009; Kaptein, 2011). From one point of view, organizational culture can be created by aligning explicit values, as expressed through mission statements or codes of ethics, with actual management behaviour and expectations. A different point of view suggests, that in any large organization one will inevitably find different subcultural groups. While in this sense, organizational culture is said to be the balancing of this network of various subcultures, this balance ultimately needs to be sustained by a leader. Thus, no matter which one of these outlooks of culture someone accepts, in effect it will be the responsibility of the leader to choose whether the fundamental values which hold the group together are ethical or unethical.

To wrap everything up, this is the area which needs improvement, or the area where business ethics needs to be effectively implemented. Certainly, this is far from being an easy task, but before trying to improve something, there is the need to identify what goes wrong. Indeed, perhaps hinting towards how difficult it is to change an individual's personality, Bowie also (2010: 701) points out that "[o]rganizational cultures do not change easily." But nevertheless, probably there is indeed something wrong with the general way business is being conducted in our society (at least from an ethical point of view) and if one expects an improvement of the economic environment, one would have to apply changes and fix the problems. Hence, it appears that there is a need to change the general mentality of people, which again brings the discussion to the importance of education.

7.3 The Virtuous Cycle of Business Ethics

So far it has been established that organizational culture is the character, or the expression for the way of being of an organization, and that management, or leadership is the main force behind the shaping of this organizational character. Continuing from this point, one could reasonably assume that a first step in improving organizational culture, would be to improve the subject of management. From here, one could go deeper into abstract thoughts and claim that management itself can be perceived as a cultural unity. Following such lines of thought, one could then take Schein's (2004) argument that a true leader would recognize the defective culture of its group and destroy it in order to build a better one which does not threaten its existence. But how can something like this be translated into reality?

A start would be to go back to the point where the subject of management needs to be improved. This needs to become an assertion or an accepted fact which should constitute the recognition that changes are needed. Of course, this whole discussion is under the assumption that the main problem with management is that it does not know how to take business ethics seriously. There are plenty of managerial theories which explain how to organize and run a company in effective ways. Viewed in isolation, this is not the point that is here contested. But, if one looks at the reality of our corporate world and lists all the ethical failures of the past decades, what else can this hypothetical observer conclude if not, that ethical aspects are not taken seriously in business conduct?

After accepting the fact that improvements and changes are needed, the next step would be to find out, how are these changes to be implemented and finally to teach the findings to everyone else. This is where the role of business ethics steps in. By now it is also clear that the subject of business ethics is far from being free of problems. Business ethicists also need to take business ethics seriously and stop wasting time with debates that bring no value. This in fact, is the opinion of Freeman (2008), referring to the so called “Friedman / Freeman” debate, but there are other examples as well. Hence, after business ethicists realize the changes and improvements they need to make, they should finally start doing what they were supposed to be doing, namely to study and do research in business ethics. It can be further assumed that if business ethics is to be taken seriously, business schools should have business ethics departments, where continuous research takes place. This should be beneficial both for the improvement and development of the discipline, and for the students who will study the subject and who will later become professionals in the business world. Here, one could start forming an idea of what has been referred to as the virtuous cycle of business ethics, which is represented in Figure 2. Based on what has been discussed so far in this thesis, it is assumed, that business ethics as a whole could be the ignition for a cycle which could improve the general economic environment and which in turn will continuously improve itself. The main driving force for this whole mechanism is culture, the norms, values, etc., which characterize the nature of the business environment. Unfortunately, today’s reality appears to be of an opposite nature, where the driving force behind the general business environment seems to be of a rather vicious nature. Indeed, Neubert and colleagues (2009) claim that the character of an organization can be either characterized by virtue or by vice, according to the type of behaviour it is promoting. Sinclair (1993) adds, that organizational culture can be used both for explaining what is happening and for what will happen inside an organization.



Figure 2: The virtuous cycle of business ethics

Put explicitly, this framework implies that if serious research is being conducted in the academic discipline of business ethics, it can be assumed that with time, it will be possible to teach the subject in effective ways at business schools. What is meant by effective is, that the teaching of business ethics will have an actual effect on students. The desired effect is to prepare students into being professionals who know how to take business ethics seriously. In other words, people need to understand that various unethical acts which promise short-term gains easily, are not in the best interests of any company or organization over the long-term. Furthermore, having actual ethical managers who are able to sustain an ethical culture and lead their organizations accordingly is also a desired effect. The framework can be viewed as a cycle due to two related reasons. On the one hand, it is expected that due to continuous research, better theories and better implementation methods are to be discovered. On the other hand, it is simply assumed that at no given point in time will perfection be achieved, meaning that there will always be room for improvement.

8. Conclusion

The main aim of this thesis was to offer an in-depth analysis of business ethics, which in turn would unravel the topic, make it easier to understand and finally, try to propose a method of implementation. A great obstacle, of course, is the difficulty and complexity of this implementation. Not only is there a need for significant and burdensome changes, but even if they were to actually take place, concrete results would not be visible for quite some time.

A look back at the previous chapters will highlight the point that every major area of business ethics can be characterized by various problems, ranging from questionable research methods to opposing opinions, coupled with a general lack of clarity and therefore, to the absence of a clear and unified direction for this discipline. In order for business ethics to be explicitly separated from terms like oxymoron, this needs to change. This is one of the reasons for the need of an in-depth analysis of business ethics. By looking at each speciality within the discipline, it is possible to observe where changes and improvements are needed. Furthermore, this improvement will only be possible through a cooperation of people from various academic backgrounds. Philosophers are needed to discuss and define the aspects of morality; psychologists and neuroscientists are needed for a better understanding of human behaviour; sociologists and anthropologists are needed for the facets related to organizational behaviour; due to lack of a better categorization, business ethicists are needed to put all of this together, while also retaining a relevance for the business perspective; and last but not least pedagogues are needed to teach others and to ensure the continuation of the process. Indeed, this leaves business ethics burdened with an extremely difficult task. Perhaps one main problem of business ethics lies in this complexity and in the difficulty of putting everything together. At least this evidences its importance and can be used to discredit those who view business ethics as a useless discipline.

It is also difficult to pinpoint where the root of all these problems lies, for it is not that there is insufficient research in business ethics, nor a lack of talented and dedicated people. The biggest problem seems to be the lack of unity between all these researchers. But nonetheless, it is not completely fair to place the whole blame on business ethics alone, when one finds the need of asking, *what is wrong with the business world?* Since business ethics is considered to be

responsible for providing a general moral improvement of the individuals who constitute the business community and therefore to amend the business environment as a whole, the subject is also an easy victim upon which the blame for all problems can be thrown at. The fault of business ethicists then, is for not standing up and for not fighting back. For not being able to find unity and a common direction, so that actual benefits can be provided. Instead of arguing whether men or women are more ethical, why not focusing on trying to find ways of actually improving the way people behave? For instance, in 1999 Ambrose and Schminke conducted a review on ethics research related to gender differences and concluded that there is no point in continuing to pursue this topic. Nevertheless, the latest reviews of ethical decision making literature show that between 2004 and 2011 there have been 38 such studies (Craft, 2013), while Lehnert and colleagues (2014) show that with 29 findings, gender still continues to be one of the most studied variables. Why not insisting and fighting for the idea that the current economic paradigm is flawed and needs significant and severe changes? This is why this thesis stresses on the importance of education. What the proposed virtuous cycle of business ethics tries to show, is, that by focusing on research and education, the long-term effect would not only be an improvement of business agents, but an improvement of business ethics. In other words, investing time and resources in actual research should result in business ethics that actually works, because if business ethics is taken seriously, it is expected to have a positive moral effect on the business environment. Or as stated by Bishop (2013), business ethics needs to move beyond just being a reactive measure, to being a proactive effort.

Of course, all of this is just an idealistic point of view and it will probably never happen in reality at full capacity. One could just have a look at the legal system – having laws which prohibit various activities does not impede such activities from happening. We are trying to educate people towards the good, but we still have people who commit wrongful acts. Nevertheless, we shouldn't be too cynical and give up easily. Even though we will most likely not be able to create a utopic world where ethical values are the true foundation underneath the economic environment, or underneath the whole political environment for that matter, we should keep trying to improve our society, because ultimately that is what self-interest is really about – to make things better, to strive towards happiness, towards the good.

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Curriculum Vitae

Personal Information

Born on 08.07.1987 in Tîrgu Mureş, Romania
Romanian and Hungarian Citizen

Education

- | | |
|-------------------|--|
| 03/2010 – 11/2015 | MSc, International Business Administration, University of Vienna
Specialization: International Marketing
Master Thesis: Integrating Business Ethics into Organizational Culture |
| 10/2006 – 07/2009 | BA, Business Administration, Babes-Bolyai University, Cluj-Napoca, Romania
Bachelor Thesis: The Relationship Between the Stock Market and Economic Activity on the Example of the US Market |
| 09/2002 – 07/2006 | High school (Baccalaureate), „Alexandru Papiu Ilarian“, Tîrgu Mureş, Romania
Specialization: Natural sciences, German line of study |

Work Experience

- | | |
|-------------------|--|
| 08/2014 – 08/2015 | Employer: Thomson Reuters Austria, Vienna
Job title: Collaboration and Community Specialist |
| 05/2012 – 07/2014 | Employer: flyern.com, Vienna
Job title: Distributor of Advertising Media |
| 06/2008 – 09/2008 | Employer: Hammer Heads Raw Bar & Grill , Ocean City, MD, USA
Summer job for students as cook via the CIEE Work & Travel Programme |
| 05/2009 - 06/2009 | Employer: Friesland Foods Romania, Tîrgu Mureş
Job title: Production Management Intern |
| 05/2008 – 06/2008 | Employer: Friesland Foods Romania, Tîrgu Mureş
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Languages	Romanian - native language German - fluent, C1 English - fluent, C1 French - basic level, B1 Hungarian - basic level, A2
Computer skills	Microsoft Office - advanced SPSS Statistics - advanced Adobe Photoshop – intermediate Thomson Reuters Eikon - intermediate
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