Understanding Ethical Behavior and Decision Making in Management: A Behavioural Business Ethics Approach

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Abstract

Management and businesses in general are constantly facing important ethical challenges. In the current special issue, we identify the widespread emergence of unethical decision making and behavior in management as an important topic for a future research agenda. Specifically, we promote the use of a behavioral business ethics approach to better understand when management, leaders and businesses are inclined to act unethically and why this is the case. A behavioral business ethics approach which relies on important insights from psychology should be a necessary addition and complementary to the traditional normative approaches used in business ethics.

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The numerous scandals in business such as those at AIG, Tyco, WorldCom, and Enron have raised many concerns about the emergence of unethical and irresponsible behavior in organizations. The seemingly unending occurrence of instances of corruption, in both business and politics, has also activated consciousness about ethics in general and business ethics in particular (De Cremer, Mayer, and Schminke, 2010). Although there may be no universal definition of business ethics, and one scholar likened defining it to "nailing jello on a wall" (Lewis, 1985), most definitions focus on *evaluating* the moral acceptability of the actions of management, organizational leaders and their employees.

As the morals and actions of the representatives of the business world seem to go downhill on rollerblade speed, it becomes increasingly necessary to not only evaluate but also understand how and why unethical behavior and decision making can emerge so easily, despite the presence of multiple control and monitoring systems (De Cremer, 2010; Tenbrunsel and Smith-Crowe, 2008). Principal-agent models (Jensen and Meckling, 1967) with their assumptions of individual self-interest and possibly even greed are early examples of behavioral approaches that have emerged as a counterpoint to the traditional, normative approach to the understanding of business ethics. These models have alerted scholars and practitioners to the possibility that individual employees may put their own interests before those of the organization or its shareholders.

The behavioral approach that we advocate will add to principal agent models by explicitly arguing that much unethical behavior occurs outside of the awareness of individual actors (in contrast to the assumption of deliberate cheating in the principal agent models). This approach enhances our understanding of how ethical awareness and norms are interpreted and how they influence decision making and behavior. Improving our knowledge in this way will help to enhance an ethical climate that can lead to sustainable and effective management. Here, in the present special issue, we suggest that a study of behavioral ethics—which focuses on how people behave as opposed to how they should behave--can supplement the traditional, normative approach to business ethics and hence provide a more comprehensive account of contemporary ethical failures in management.

A Normative and Behavioral Business Ethics Approach

The standard approach to the study of ethics in business and management has been a normative or prescriptive approach, which focuses on what managers, employees and people in general "should" do to act as morally responsible actors (Jones, 1991; Rest, 1986; Trevino and Weaver, 1994). The prescriptive tones that are inherent in this literature are clearly reflected in the popularity of organizational codes of conduct and moral guidelines issued by management (Adams, Taschchian, and Shore, 2001; Weaver, 2001). An interesting and important underlying assumption of this approach is that it promotes the idea that individuals are rational purposive actors who act in accordance with their intentions and understand the implications of their actions. This approach leads to the rather erroneous conclusion that most business scandals must be the responsibility of a few bad apples. This logic is consistent with early explanations of business scandals. Charles Ponzi, the originator of the now-infamous Ponzi scheme, and Bernie Madoff's forefather, clearly knew that he was doing wrong (Dunn, 1975). Larger corporate scandals also tend to focus on the actions and the responsibility of a few 'bad apples' (De Cremer, 2009). This assumption is intuitively compelling and attractive in its simplicity. On a practical level it also facilitates both identification and actual punishment of those deemed responsible. More generally, a normative perspective suggests, or at least implies, that people interpret moral dilemmas in a conscious manner and that cognitive guidelines can be used to avoid ethical lapses.

This rational approach, however, may not be able to account for the emergence of a wide range of unethical behaviors. Ethicality and intentionality are two important but distinct dimensions: individuals make both intentional and unintentional ethical and unethical choices (Tenbrunsel and Smith-Crowe, 2008). For instance, there is considerable evidence indicating that good people sometimes do bad things (Bersoff, 1999), and may not even realize that they are doing so. Research on ethical fading (Tenbrunsel and Messick, 2004, p:204) asserts that "Individuals do not "see" the moral components of an ethical decision, not so much because they are morally uneducated, but because psychological processes *fade* the "ethics" from an ethical dilemma.". In addition, it is clear that we are not always rational in our actions and judgments. The idea that our decisions and judgments are not always colored by conscious reasoning processes is supported by recent research on morality, intuition and affect. This intuitionist framework suggests that moral judgments and interpretations are the consequence of automatic and intuitive affective reactions. Haidt (2001, p. 818), for instance, defined moral intuition as "the sudden appearance in consciousness of a moral judgment, including an affective valence (good-bad, like-dislike), without any conscious awareness of having gone through steps of searching, weighing evidence, or inferring a conclusion." This approach suggests that moral judgments are (or at least can be) quick and affect-laden rather than including elaborated and reflexive reasoning processes.

Recent research supports these ideas, suggesting that it is not a select few who succumb to unethical action; instead, almost everyone is susceptible to the forces that ultimately result in questionable decisions and unworthy actions, e.g., "there but for the grace of God go I." This research takes the perspective that most individuals involved, both within and outside the business world, know that a range of behaviors are not acceptable in both the workplace, the marketplace, and society. Business people, in particular, are aware of appropriate, ethical decision rules and moral behaviors and how they might be promoted (e.g., the rules in a company's code of conduct or a profession's ethical guidelines). Despite this awareness, however, irresponsible and unethical behaviors and decisions still emerge. In essence, some contexts may be sufficiently compelling for almost anyone to engage in unethical behavior. Arriving at a more complete understanding of these circumstances should enable leaders to create more ethical organizations. This is a fundamental, foundational idea in the emerging field of behavioral ethics.

Because of its focus on the actual behavior of an individual (i.e., advocating a descriptive rather than a prescriptive approach), research in behavioral ethics largely draws from work in psychology. In 1996, Messick and Tenbrunsel called for the intersection of psychology and business ethics. In 2001, Dinehart, Moberg and Duska compiled a series of papers entitled, entitled *The Next Phase of Business Ethics: Integrating Psychology and Ethics*, aimed at the synergy to be gained through the intersection of these two fields. Bazerman and Banaji (2004, p. 1150) noted "that efforts to improve ethical decision making are better aimed at understanding our psychological tendencies." We concur with these authors and propose that psychology can provide an ideal foundation for examining and promoting our understanding of why good people sometimes can do bad things.

The Special Issue

In the present special issue, we present four papers that investigate how people in business and organizational settings behave and make decisions that have moral consequences and moral connotations. These four papers focus on processes like goal-setting, self-regulation, self-interest and knowledge processing and their impact on ethical behaviors and decisions that ultimately influence the welfare and sustainability of business and organizations as a whole. The papers use a range of approaches and research designs and thus the special issue also provides an example of how business ethics can be best understood by combining both field studies and experimental research.

The first paper, by Van Yperen, Hamstra and Van der Klauw, presents two studies that investigate the link between achievement goals and academic cheating. Because current students will lead business enterprises and organizations in the near future, academic cheating is a particularly relevant topic to investigate in the context of business ethics. In their first study, Van Yperen and colleagues present the results of a cross-sectional survey. They show that students who have a dominant performance-based goal (e.g., being better than others) also express stronger inclinations to cheat than students with a dominant mastery-based goal (e.g., trying to become better than in previous tasks). In a second study, after randomly imposing one of the two goals on a new sample of students, the results showed that students in the performance goal condition cheated more than students in the mastery goal condition. Thus, whether it was a push or a natural inclination, performance desires seemed to be associated with an inclination and a likelihood of cheating more than mastery did. These findings are particularly intriguing the context of so many performance-oriented businesses.

The second paper, by Shalvi, Handgraaf, and De Dreu, presents and experiment that investigated people's strategic ethical choices, i.e., why they are more likely to act unethically when they can maximize their gains for the least psychological cost. The experimenters asked participants to report the roll of a die, but the procedure was formulated so that only the participants could see the actual result. The probability distribution of their reports was skewed toward numbers that provided the participants with better payoffs – but they were not skewed as much as they could have been. Thus, the results indicate that people avoid major lies. In addition, they tended to lie less often when payoffs were minimal. Thus, the results also indicate that people avoid minor (i.e., not very beneficial) lies. These findings suggest that lying is psychologically costly. The authors conclude by discussing a number of neat organizational implications of their findings.

In the third paper, Barriquier uses qualitative research to examine the ethical decision making process of executives in the flavours and fragrances industry fragrance industry. Guided by an intuitionist lens, Barriquier identifies three stages in the decision making process: ethical knowledge or awareness that the decision is an ethical one, intuitionist judgment and an arbitration between profits and ethics. This process results in one of four possible decision making outcomes, defined by the interaction between profits and compliance: low compliance/low profitability, high compliance/low profitability, low compliance/high profitability and high compliance/high profitability. Using this characterization, Barriquier identifies four strategic profiles—fraud, crisis, innovation and survival, that emerge from these outcomes.

The final paper, by Brebels, De Cremer, and Van Hiel, combines an experimental study and the results of two organizational field surveys to examine whether the relationship between moral identity and the enactment of procedural justice is contingent upon people's regulatory focus. The two field survey studies confirm the expected link between supervisors' moral identity and the extent to which they grant voice to their subordinates (as one important aspect of procedural justice) and they show that the relationship between identity and voice-granting is stronger for supervisors with a prevention focus. The causal direction was investigated in a scenario-based experiment and confirmed the field studies' results.

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