Chapter 18
An Integrative Model for Understanding and Managing Ethical Behavior in Business Organizations

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"The question of ethics in business conduct has become one of the most challenging issues confronting corporate America in this era," is the conclusion of a recent Business Roundtable report (Business Roundtable 1988: p. 4). Indeed, support for this point abounds. Whether it be Wall Street, the defense industry, the savings and loan industry, or some local mom-and-pop operation, examples of unethical behavior in business appear daily in the national and local media. In the last couple of years, virtually every major business and news periodical in the nation (i.e., *Fortune, Newsweek, Time* and *Wall Street Journal*) has depicted the business ethics of the 1980s as greedy, selfish distortions of the free enterprise system with excessive emphasis on personal wealth and fame. Ninety-four percent of the 1082 respondents to a 1988 Touche Ross survey of business executives, directors, and business school deans, said that the business community as a whole is troubled by ethical problems. Sixty-eight percent of the respondents said that they did not believe these ethical problems were overblown in the press (Touche Ross 1988). In their recent book, Freeman and Gilbert (1988) strongly contend that all strategies have some ethical foundation, and that managers must recognize that they do not operate in an ethical vacuum. They say that strategic decision makers must address the issues facing them in moral terms or risk moral decay.

Managing ethical behavior is thus no doubt a critical social problem for business organizations. It is also a very complex problem which requires an in-depth understanding of the many factors which contribute to employees' decisions to behave ethically or unethically. The purpose of this article is to develop an integrative model

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of ethical behavior based on an extensive review of empirical and conceptual literature related to this issue. This model provides some important clues as to how ethical behavior can be effectively managed in business organizations.

Understanding Ethical Behavior in Organizations

Current behavioral research strongly supports a person-situation interaction explanation of human behavior in which both individual and situational factors influence the behavioral choices made by individuals (Jones 1985; Luthans and Kreitner 1985; Terborg 1981; Trevino 1986). In this section, we will focus on discussing the individual and situational factors identified in the current literature which seem to influence employees' decisions to behave ethically or unethically at work.

Individual Personality and Socialization Factors

There is little doubt that personality and background will influence a person's ethical system – his or her system of ethical philosophies and behavioral patterns. Researchers have suggested three personality measures that may influence ethical behavior – ego strength, machiavellianism and locus of control (Hegarty and Sims 1978; Preble and Miesing 1984; Trevino 1986). Ego strength is defined as an individual's ability to engage in self-directed activity and to manage tense situations (Crandall 1973). Machiavellianism is a measure of deceitfulness and duplicity (Robinson 1973). Locus of control is a measure of whether or not a person believes that his or her outcomes in life are determined by his/her own actions (internal) or by luck, fate or powerful others and institutions (externals) (Levenson 1974).

Socialization also seems to influence a person's ethical system. Researchers have identified sex role differences, religious beliefs, age, work experience and nationality as factors which may influence the ethical decisions made by individuals (Hegarty and Sims 1978; Preble and Miesing 1984).

A critical socialization factor for business managers is the influence of significant others. Research in social learning theory strongly supports the idea that we learn appropriate behavior by modeling the behavior of persons we perceive as important – parents, siblings, peers, teachers, public officials, etc. (Jones 1985; Luthans and Kreitner 1985). Managers no doubt represent significant others to employees, and thus the ethical behavior of managers will certainly influence the ethical behavior of employees.

Ethical Philosophies and Decision Ideologies

As we discussed above, a person's personality and socialization will likely influence his or her ethical system. Both the content of an individual's ethical system – the norms that guide his or her ethical behavior – and the individual's perceptions about when and how to apply these ethical norms will likely vary according to differences in personality and socialization factors. For example, it has been found that machiavellians are likely to believe that ethics are situational rather than absolute (Leary et al. 1986).

The content of one's ethical system, the network of ethical norms and principles one holds, constitutes a person's ethical philosophy. Social psychologists have contended for years that these normative structures influence the behavioral decisions made by individuals (Hogan 1973). Thus, an individual's ethical philosophy will likely influence his or her ethical decisions.

Cavanagh et al. (1981) identified three basic ethical philosophies, each of which represents a unique part of the total ethical situation faced by individuals in business organizations. The first is utilitarianism. The central concept of utilitarianism is a belief that ethics is best applied by considering the greatest good for the greatest number. The second philosophy is individual rights. This philosophy focuses on protecting individual rights such as the right to be informed, the right to free consent, the right to due process, etc. The third ethical philosophy is justice. Such an ethical system stresses social justice and the opportunity for all to pursue meaning and happiness in life. Researchers have concluded that these philosophies accurately represent the ethical normative structures of individuals (Boal and Peery 1985). Most individuals allow one of these philosophies to dominate their ethical decisions with the utilitarian philosophy being dominant among business managers (Fritzche and Becker 1984).

As mentioned above, when and how persons apply their ethical philosophies will also vary from individual to individual. Forsyth (1980) contends that individuals differ in terms of the moral judgments they make, and that the actions they take resulting from these moral judgments also differ. He refers to these differences as ethical decision ideologies and says that they are based on two dimensions. First is idealism – the degree to which an individual believes that ethical behavior always results in good outcomes. Second is relativism – the degree to which an individual believes that moral rules are situational. Persons high in both idealism and relativism are called situationists. They reject the use of universal or individual moral principles, preferring to analyze each situation and to determine appropriate moral behavior based on this analysis. Subjectivists are individuals low in idealism and high in relativism. They base their moral judgments on individual rather than universal principles. Absolutists are individuals low in relativism but high in idealism. They believe that they achieve the best outcomes in life by following strict, universal moral codes. Finally, exceptionists, those low in both dimensions, believe in universal moral rules as guides, but are open to practical exceptions. Researchers have found that persons with different ethical decision ideologies vary in terms of how they integrate ethical information, how they judge their own ethical dilemmas, and how they judge the moral decisions of others (Forsyth 1981, 1985; Forsyth and Pope 1984). They also differ in terms of their sense of moral obligation, responsibility and caring for other people (Forsyth et al. 1988).

Ethical Decision History

Social learning theorists contend that past decisions play a key role in current and future decisions. Once reinforced, a decision made by an individual will influence future decisions that he or she makes (Jones 1985; Luthans and Kreitner 1985). Thus as ethical decisions are made and reinforced over time, the individual develops an ethical decision history. Through this process ethical philosophies and decision ideologies are likely to become relatively enduring.

Decision history is unique in the sense that it is both situational, because of its reinforcement foundation, and individual, because of the influence of the person's own ethical system and unique behavioral history. The fact that it is both individual and situational may explain why researchers have found that decision history has a strong direct influence on ethical decisions made by individuals (Stead et al. 1987).

Organizational Factors

Another set of factors influencing the ethical behavior of employees exists in the organizational context. Researchers have concluded that a variety of organizational variables influence ethical behavior among employees. Further, because of their immediate situational impact on employee behavior, these variables, like with decision history, have been shown to have a strong direct influence on specific ethical decisions made by employees, usually overwhelming individual variables such as personality and socialization (Hegarty and Sims 1978; Stead et al. 1987; Trevino 1986).

The philosophies of top managers as well as immediate supervisors represent a critical organizational factor influencing the ethical behavior of employees. Copious research over a period of more than 25 years clearly supports the conclusion that the ethical philosophies of management have a major impact on the ethical behavior of employees (Arlow and Ulrich 1980; Baumhart 1961; Brenner and Molander 1977; Carroll 1978; Hegarty and Sims 1978, 1979; Posner and Schmidt 1984; Touche Ross 1988; Vitell and Festervand 1987; Worrell et al. 1985).

Another organizational factor is managerial behavior. According to Nielsen (1988), managers behaving unethically contrary to their ethical philosophies represents a serious limit to ethical reasoning in the firm. Much of the research cited in the above paragraph implicitly or explicitly states that ethical philosophies will have little impact on employees' ethical behavior unless they are supported by managerial behaviors which are consistent with these philosophies. If normative structures help explain behavior patterns as social psychologists contend (Hogan 1973), then, conversely, norms not supported by appropriate behaviors are not likely to be accepted as legitimate by employees. One of the keys to understanding the influence of managerial philosophy and behavior on the ethical behavior of employees lies in a point made earlier that managers represent significant others in the organizational lives of employees and as such often have their behavior modeled by employees.

One of the most basic of management principles states that if you desire a certain behavior, reinforce it. Another critical organizational variable that influences ethical behavior is the firm's reinforcement system. Research in ethical behavior strongly supports the conclusion that if ethical behavior is desired, the performance measurement, appraisal and reward systems must be modified to account for ethical behavior (Hegarty and Sims 1978, 1979; Trevino 1986; Worrell et al. 1985). According to Nielsen (1988, p. 730),

> In many cases, managers choose to do, go along with or ignore the unethical … because they want to avoid the possibility of punishments [or] to gain rewards …

Several dimensions of the job itself may also influence the ethical behavior of employees. Researchers believe that the more centrally located a job is in the communication network of the firm, the more ethical decisions will likely have to be made by the occupant of that job (Trevino 1986). Also jobs involving external contacts are believed to have more potential for ethical dilemmas than jobs with purely internal contacts (Vitell and Festervand 1987). Further, management often responds less severely to breaches of ethics by employees on whom they rely for technical expertise, because these employees represent a scarce resource for the firm (Rosen and Adams 1974).

External Forces

There are a variety of external factors which will likely influence the ethical philosophies and behaviors of managers, the reinforcement system established to control employee behavior, the discretion given employees to behave ethically or unethically, etc. Two-thirds of the respondents to the Touche Ross survey (1988) believed that the most threatening condition to American business ethics today is the decay in political, social and cultural institutions.

Two-thirds of the respondents to the Touche Ross survey (1988) also believed that competitive pressures represent a significant threat to American business ethics. Two key competitive factors which affect ethics were mentioned by these executives. One was the ever increasing competitive pressure to concentrate on short-term earnings. Another was related to the current multinational business environment with its varying ethical standards from country to country. James Sammons, Executive Vice President of the American Medical Association, says that economic pressures associated with health care delivery in todays' high-tech, high-cost environment represents the most serious ethical problem facing the health care industry (Sammons 1988).

Volatile economic conditions, resource scarcity and pressures from stakeholders may also serve to undermine ethical behavior in organizations. The ethical trap provided by external factors such as these is obvious. It places the firm in a position of having to choose between being an ethical role model for its industry and the environment in general or succumbing to the situational pressures and engaging in unethical practices. While it is certainly encouraging that 65% of the Touche Ross survey respondents believed that high ethical standards strengthened the firm's competitive position, it is somewhat discouraging that 35% of those respondents believed that high ethical standards either weakened or had no effect on the firm's competitiveness (Touche Ross 1988).

This discrepancy in the opinions of the respondents to the Touche Ross survey (1988) as to whether high ethical standards enhance or detract from a firm's competitive position probably reflects the fact that ethical decisions have several potential competitive outcomes. Being ethical may directly increase a firm's profitability (i.e., reducing costs by reducing employee theft) or it may directly decrease a firm's profitability (i.e. increasing costs by installing an expensive pollution control system or insuring a safe workplace). Further, ethical actions may have a less direct but nonetheless real effect on a firm's competitiveness. For example, decisions to recall a defective product (i.e., Tylenol) or to withdraw from a market for moral reasons (i.e., South Africa) may have immediate costs but may also enhance a firm's image and thus its long-term profitability. In their casebook, Matthews et al. (1985) present several cases which clearly demonstrate each of these potential competitive outcomes.

A Model of Ethical Behavior in Organizations

The model depicted in Fig. 18.1 conceptually demonstrates the relationships among the factors discussed above. Hopefully, the model will help to improve managers' understanding of both why employees behave ethically or unethically in business organizations and what managers can do to influence this behavior.

The initial linkage in the model reflects the relationship between the individual factors and the development of the person's ethical philosophy and decision ideology. Essentially this linkage demonstrates that the ethical beliefs that one holds and how and when those beliefs are applied, are strongly influenced by personality and background.

The interactions between one's ethical philosophy and decision ideology will likely influence the ethical decisions a person makes. These decisions are usually reinforced – rewarded, punished, etc. Over time, the individual's ethical choices and the nature of the reinforcement that accompanies these choices lead to his or her ethical decision history.

As the individual enters and gains experience in an organization, his or her ethical behaviors are influenced by managerial philosophy and behavior, the reinforcement system and the characteristics of the job itself. This work experience with its reinforcement and significant influence by management in turn become critical socialization forces influencing the individual.

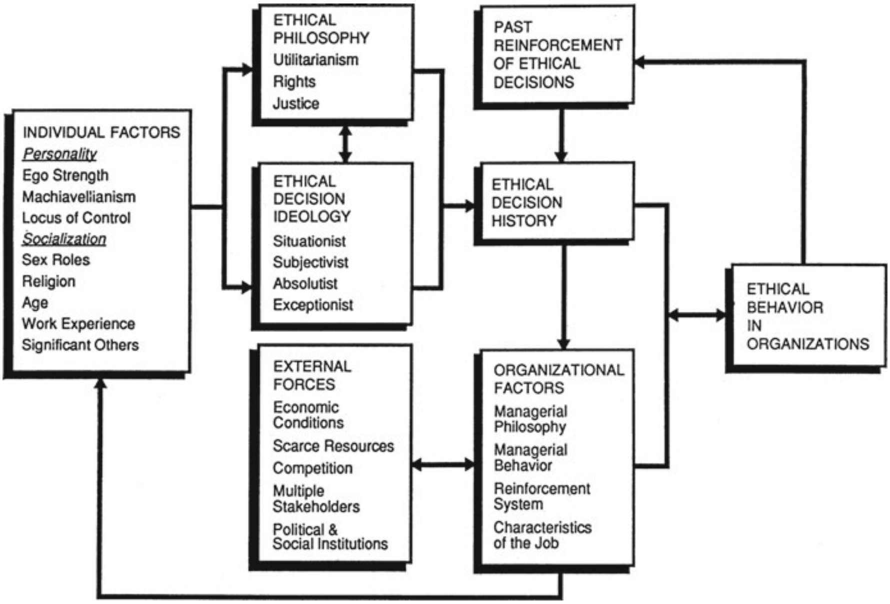

Fig. 18.1 Model of ethical behavior

Of course, these organizational factors do not exist in isolation, but are instead heavily influenced by outside forces such as competitive pressures, economic conditions, resource needs, stakeholder demands, etc. As mentioned above, maintaining high ethical standards may directly increase or decrease a firm's competitiveness, or it may have both of these outcomes over time. However, Goodpaster and Matthews (1982, p. 139) contend that if "moral demands are viewed as containments – not replacements – for self-interest" then firms can for the most part be competitive while maintaining moral responsibility. This will not always be the case of course, but cases in which being ethical requires self-sacrifice are rare (Goodpaster and Matthews 1982).

Note that the model depicts a direct relationship between decision history and organizational factors and the ethical choices made by the individual in the organization. These factors have consistently overshadowed personality and socialization factors in research. Also note that as the ethical choices the employee makes are reinforced over time by the organization, they become a part of the employee's decision history which in turn can influence the ethical culture of the organization.

Conclusions and Recommendations

Our position, of course, is that ethical behavior needs managing and can be managed in business organizations. However, influencing ethical behavior in business organizations is a multi-faceted problem with many traps and pitfalls. In developing a system for managing ethical behavior, a firm may have to modify its structure, selection and training procedures, reporting system, reward system, communication system and internal auditing procedures. These modifications cannot be made in an organization unless those who spearhead the effort have adequate leadership skills, a reasonable period of time, and support from the organization's authority structure and culture (Nielsen 1989). Thus, implementing the ethical management suggestions discussed in this section will require the firm to have total commitment and cooperation from top to bottom.

As the model and research review above indicate, decision history and organizational factors have the most significant impacts on the ethical behavior of employees. Thus, managers do not have to rely on the integrity of the employee alone. They have the power to structure the organizational context to promote ethical behavior. If managers are willing to take the actions necessary to support ethical behavior, then employees, when faced with ethical dilemmas such as improper gifts, kickbacks, improper pricing, nepotism, favoritism, etc., may be encouraged to make the right choices. Some of the things firms can do to manage ethical behavior are presented below.

Behave Ethically Yourself

This is first and foremost in influencing ethical organizational behavior. As Ranken (1987) points out, it is not the corporation itself that exerts moral responsibility, but rather the individual members of the corporation. Therefore, the institutionalization of high ethical standards in corporations "stems from the character of persons who occupy the relevant positions (Ranken 1987, p. 634)." Managers cannot expect ethical behavior from employees if they do not behave ethically themselves. Managers are the most significant role models in the organizational setting; thus they have a major socializing influence on lower level employees. The key to being an effective ethical role model for employees is to demonstrate consistency between one's ethical philosophy and ethical behavior.

None of the other suggestions made in this section are likely to have much influence on ethical behavior if managers do not behave ethically. This is especially true for top managers. Remember, as stated above, that ethical management systems in organizations require the support of the organizational culture and authority structure (Nielsen 1989). The dominant core values of the firm's culture are formulated at the top, and the authority structure of the firm begins at the top. Thus, ethical behavior must begin at the top.

Managers who wish to influence ethical behavior without support from the top will likely have to do so by initiating individual action against the unethical behavior in the organization. Behaving ethically may mean that a manager refuses to carry out unethical policies, threatens to blow the whistle, or actually blows the whistle. Individuals who take such actions often risk high anxiety and loss of potential livelihood. Thus, engaging in ethical behavior may require a great deal of courage for the individual (Nielsen 1989).

Screen Potential Employees

Since individuals are likely to face ethical issues most of their lives, there is little doubt that potential employees have significant ethical decision histories when they apply. Thus the first line of defense against unethical behavior in the organization is the employment process. There are several methods available to organizations for ethical screening. These techniques vary widely in terms of costs and benefits. Further, these techniques may vary widely in terms of their legality and may themselves have ethical implications.

Paper and pencil honesty tests are one technique which may be used for ethical screening in organizations. These tests seem to be reasonably valid with low costs and short time periods involved in administration (Sackett and Harris 1984).

Background investigations, which can range in scope from simply checking résumé information, calling references and requiring transcripts to hiring investigators, can be valuable tools in screening employees. Of course, full-blown investigations can be very expensive and time consuming and thus are cost effective only in cases of very sensitive positions. Further, before conducting such an investigation, the organization should inform the applicant and get his/her permission. On the other hand, since researchers have found that between 30% and 80% of all credentials may contain at least some misstatement of fact (Bayes and McKee under review), it seems that firms would be well advised to require official transcripts, call references and former employers, etc. These methods are not very costly, and can help the company in avoiding problems down the road. Interestingly, relatively few firms seem to bother to invoke these simple procedures.

Other means for screening the ethics of employees were revealed in the Business Roundtable report (1988). For example, Chemical Bank requires all potential employees to read and sign a statement obligating them to abide by the company's values and ethical standards as part of the application process; Johnson and Johnson includes its code of ethics in all of its recruiting material; and Norton specifies honesty and integrity as characteristics it wants search firms to screen for when finding applicants for positions with the firm.

As mentioned above, there are both legal and ethical issues involved in screening employees. For example, one screening mechanism, the much maligned polygraph (often referred to as twentieth century witchcraft), is no longer available for employee screening except for a few sensitive government positions. Its use in employment decisions has been seriously restricted by Federal legislation. Also, firms must be careful to consider the privacy rights of both potential and former employees when checking references, conducting background investigations, etc.

Develop a Meaningful Code of Ethics

Codes of ethics are probably the most visible sign of a company's ethical philosophy. In order for a code of ethics to be meaningful, it must clearly state its basic principles and expectations; it must realistically focus on the potential ethical dilemmas which may be faced by employees; it must be communicated to all employees; and it must be enforced. Further, a meaningful code of ethics cannot rely on blind obedience. It must be accepted and internalized by the employees who are required to implement it. This means that managers must attend not only to the content of the code but also to the process of determining that content. To be most effective, a code should be developed and disseminated in an open, participative environment involving as many employees as possible.

All ten firms in the Business Roundtable report (1988) had strict codes of ethics. These firms stressed several factors related to successful institutionalization of their codes including giving the codes to new employees as part of their selection and orientation, conducting seminars on the codes, and requiring communication of the codes at all levels. This last factor seemed to be of particular importance to these firms. They stressed that communication of their codes takes place in open discussion environments where employees are encouraged to ask questions and make suggestions concerning the codes. For example, many of these companies encouraged separate units to develop their own specific codes which dealt with the unique ethical dilemmas they faced. They believe that participative methods like this improve the potential that the codes will play a central role in the management of ethical behavior within their organizations.

On the other hand, it appears that not all firms stress their ethical codes to this degree, and that many of the codes themselves ignore certain crucial ethical issues. The conclusions of one study indicated that very few CPAs have a good working knowledge of the AICPA code of ethics (Davis 1984). William Frederick has found that many codes of ethics seem to be little more than lip service documents which focus primarily on profit oriented issues while often ignoring other critical issues such as personal character matters and environmental problems (Wartzman 1987).

Provide Ethics Training

Employees need to have an experiential awareness of the types of ethical dilemmas they may face, and they need to know what actions to take in these dilemmas. Providing ethics training for employees is one key to increasing this awareness.

Ethics training normally begins with orientation sessions and open discussions of the firm's code of ethics. Employees should be encouraged to participate at a high level in these sessions as well as in other training that follows. This is often followed by the use of fictitious ethical scenarios which simulate situations that employees may face on the job. Providing salespersons with scenarios involving improper gifts or kickback offers gives employees a chance to make ethical decisions in realistic situations and to discuss these decisions openly with peers, supervisors, etc. Organizations such as McDonnell Douglas and General Dynamics have used scenario training to transform their codes of ethics from simple documents to tools for training, education and communication about ethical standards (Otten 1986).

Nielsen (1988) believes that this traditional approach to ethics training may not be completely effective because it relies too heavily on ethical reasoning as an action (praxis) strategy for managing unethical behavior. He says that traditional training approaches may improve an employee's intellectual understanding of what ethics is. However, there are many limitations (i.e., bounded rationality and time constraints) which can impede the employee's ability to translate this intellectual understanding into practice. He suggests an alternative approach in which the actual ethical experiences, values and intuitions of the participants become the primary elements of ethics training. He believes that such an approach may achieve a better balance between experiential and abstract classroom learning than more traditional methods.

Reinforce Ethical Behavior

The reinforcement system of the company must support ethical behavior. Employees should be rewarded for behaving ethically, and they should be punished for behaving unethically. This is not as simple as it sounds, however. It involves developing a clear understanding of how ethical behavior is defined by the organization, developing a system to measure and report ethical behavior, and developing a performance appraisal and feedback system that includes ethical behavior. Chemical Bank, for example, has a comprehensive internal and external audit system in place, and its employees are encouraged and provided mechanisms to report any suspected improprieties. General Mills uses integrity and social responsibility as a key factor in its performance appraisal and reward distribution decisions (Business Roundtable 1988).

Effective reinforcement also involves being willing to make tough decisions in situations involving unethical behavior. Remember, employees in positions to make ethical decisions are often those who play some central role in the organization or on whom the organization relies for technical expertise, etc. Disciplining employees who are critical to the organization's success is not easy. And yet, successful management of ethical behavior requires the resolve on management's part to be willing to severely punish unethical performance. There was consensus among the firms in the Business Roundtable (1988) on this point. Most said that ethics violators would be fired summarily and prosecuted for their actions if possible. They also said that punishment for unethical behavior must be followed-up by immediately spreading the news of the offense and the punishment through the firm's grapevine.

Create Positions, Units and Other Structural Mechanisms to Deal with Ethics

As noted earlier, no cooperative effort for influencing ethical behavior from within an organization is going to be successful unless it is supported by the authority structure and culture of an organization (Nielsen 1989). One way to operationalize such support for ethical behavior is by creating structural mechanisms for managing ethics. A variety of structural mechanisms designed to advise management about ethics, monitor ethical behavior among employees, communicate ethical policies, serve as ombudsman for reporting ethical violations, etc., can be put into place in business organizations. Raelin (1987) calls for a professional ethical aide-de-camp for top managers. Xerox has established an internal audit committee to monitor ethics; Norton has established an ethics committee of the board of directors. Employee newsletters and magazines are frequently used to publish codes of ethics, ethical policies, etc. (Business Roundtable 1988).

In sum, ethical behavior in business organizations is a complex, multi-faceted problem with significant individual and situational dimensions. Effective management of ethical behavior requires that organizations espouse ethics, expect ethical behavior from managers, screen potential applicants effectively, provide meaningful ethical training for employees, create ethics units, measure ethics, report ethics, reward ethics and make the tough decisions when none of this works. Developing systems with these characteristics requires sound leadership and support from the organizational culture and authority. Managers must often be willing to take risks in effectively implementing such a system. Yes, managing ethical behavior in business organizations is possible, but it is no easy task.

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