

Business Ethics in a Transition Economy: Will the Next Russian Generation be any Better?

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ABSTRACT. This study investigated students' perceptions of ethical organizational climates, attitudes towards ethical issues, and the perceived relationship between ethical behavior and success in business organizations. Comparisons were made between the attitudes of these future managers with previously published studies of Russian managers' attitudes. A survey of 100 business students in three Moscow universities showed that their attitudes toward ethical behavior were more negative than those of Russian managers. No significant differences were found in the perceptions or attitudes of students who had attended an ethics course and those that did not. The implications for both managers and researchers were reported.

KEY WORDS: ethical climates, ethics and success, ethics in a transition economy, Russia.

Introduction

While there is ample evidence that the Russian economy has made significant progress since its transition from the Communist political system in 1990, businesspeople not only compete with each other, but also with graft and gangsterism (Aris, 2001; Burton, 2001). Some indicators of the extent to which unethical behavior is believed to occur in Russia are given by the Corruption Perception and Bribe Payers Indices compiled by Transparency International. The Corruption Perception Index is an attempt to measure the perception of corruption in a given country by respondents employed in multinational corporations and institutions. In the 1996 index, Russia was ranked 47 out of 54 countries surveyed, with a score of 2.58 (10 is the highest score possible, indicating no corruption). In contrast, New Zealand was ranked as the least corrupt country with a score of 9.43. In 1998, Russia had a score of 2.4 and in 2004, a score of 2.8 (ranked 90 out of 145 ranks). In short, corruption is perceived to be a significant problem in Russia, without any improvement in nearly a decade. The Bribe Payers Index was initiated in 1999. It ranks countries to the degree in which bribes are paid to senior public officials by companies in leading exporting countries. Of the 21 countries surveyed in 2002, Russia was in last place with a "bribe propensity" score of 3.2 (10 is the highest score meaning a zero

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propensity to pay bribes). Given the results of both surveys, it is evident that the Russian business system is perceived to be highly corrupt.

The ethical environment in Russia is influenced by a number of historical, environmental and organizational factors. These include Russia's social history, norms values, ideals and goals (Sidorov et al., 2000). More specifically, the current state of ethical behavior is averred to be molded by a chaotic past history, an underdeveloped system of business law, a unique culture and totalitarian political regimes (Dawisha and Parrot, 1994; Green, 1995; Puffer and McCarthy, 1995, 1996).

The Russian economy has experienced two major transitions beginning in 1990: (1) state encouraged development of new enterprises and entrepreneurship and (2) privatization of industry (Ivancevich, 1992). During the transition period there has been little concern for ethics. A number of factors contribute to this lack of concern (Filatov, 1994). First, transition fosters instability and distortion of the economic system where ethical considerations are ignored. The socialist system was based on managed collectivism with little or no individual initiative, while the transition away from Communism was based on individual initiative. This transition required individual responsibility, but was not accompanied by institutional responsibility as a guiding force. Second, the introduction of cooperatives in 1988, the first form of private ownership, produced too much economic freedom too quickly, which contributed to unethical behavior. According to Filatov, of the 700 cooperatives registered in the Moscow area, about half had no required book-keeping system. Third, appropriate business legislation did not keep pace with the transition. The lack of rules and regulations in this regard also fostered unethical behavior.¹ Fourth, vestiges of the defunct communist regime were carried over during the transition period. During the Soviet period, people were led to believe that any kind of private entrepreneurial activity was immoral. Repression and misinformation (lying) was the rule, while bribery and deception were often used to circumvent the draconian measures placed in force by the regime. Some of these unethical practices have continued to the present. Finally, probably one of the most significant constraints to the establishment of an ethical business system in Russia is the lack of background or support structures (Deshpande et al., 2000;

Hisrich et al., 2003; Stewart et al., 2002), such as ethical codes of conduct at the institutional or organizational levels and ethics courses at business schools to train the next generation of managers.

The preoccupation with the state of business ethics in Russia is important to both academics and business practitioners. The increased involvement of international business in Russia necessitates dealing with cross-cultural ethical differences. Disparity between moral codes and beliefs between investors and domestic managers hinders successful business transactions and lowers the level of trust between the parties. Consider the "Ben and Jerry's Home-made" ice cream anecdote reported by Puffer and McCarthy (1995). A senior Russian partner of the enterprise "borrowed" equipment used in the Ben and Jerry operation for use in his other businesses. While the American partner considered such behavior as unethical, it was thought to be reasonable by the Russian partner, since he was part-owner of both business enterprises. How should the American partner react in such a situation? A better understanding of Russian moral reasoning would help bridge the perception gap and lead to better understanding of the differences between the two business cultures.

The purpose of this paper is to assess the attitudes towards business ethics of "future" managers in the Russian economy. While there are some studies of the attitudes and perceptions of Russian business and civil service managers, there is scant reference in the literature to students currently pursuing business administration studies and, who will shortly become business and institutional managers. A study of business students' ethical ideologies should be an indicator of the future moral climate (Grünbaum, 1997). The paper is divided into the following sections. A literature review of the state of Russian business ethics is presented next. This is followed by a discussion of the research questions explored and the methodology employed. The results of an empirical study are presented, followed by a discussion of the research and managerial implications.

Previous research

Most of the research dealing with Russian business ethics has surveyed managers in various industrial and

TABLE I

Business ethics in Russia – literature review

Study	Objectives	Sample	Findings
Ahmed et al. (2003)	Investigate how perceptions/attitudes towards the ethical dimension of doing business vary in different countries	48 business students from the St. Petersburg University of Economics and samples of business students from China, Egypt, Finland, Korea and the United States	Russian students perceived ethical dilemmas to be less harmful and indicated a higher propensity to pursue the same action as given in the scenarios
Deshpande et al. (2000a)	A study of employee perceptions of ethical climates	136 managers in state run educational, research and scientific institutions in the Sakha Republic	A more caring organizational climate is more conducive to the promotion of ethics
Deshpande et al. (2000b)	A determination of the impact of gender on perceptions of various business practices by male and female managers	136 managers in state run educational, research and scientific institutions in the Sakha Republic	Female managers generally perceived unethical behaviors as such more than male managers
Hisrich et al. (2003)	An examination of ethical attitudes in Russia, Slovenia, Turkey and the United States	159 “entrepreneurs” associated with the Academy of the National Economy	Russians expressed a lower level of ethical responsibility
Puffer and McCarthy (1995)	A comparison of American and Russian conceptions of business ethics	Secondary research	Actions that are expected as ethical in Russia, but unethical in the United States include: Favoritism and grease payments, price fixing, manipulating data, ignoring “senseless” laws and regulations
Robertson et al. (2003)	A study of the differences between American and Russian managers in their ethical ideologies and practices	63 American and 46 Russian managers	Russian managers are more realistic and are willing to sacrifice ethical standards for personal or company financial gain
Stewart et al. (2002)	What public servants think about the use of administrative discretion in responding to ethical issues. Based on Kohlberg’s theory of moral development	113 public servants.	Russians express a higher preference for principled reasoning and a lower preference for stage 4 reasoning than U.S. or Polish managers
Thelen and Zhuplev (2001)	Russian and U.S. student attitudes on ethical issues in managing Russian small firms engaged in business transactions with U.S. firms	48 American and 58 Russian undergraduate business students	Russian students do not discriminate between the severities of decision alternatives, generally choosing the most severe. Russian and American students significantly differ in their choice of a decision alternative

institutional settings. Because this paper deals with attitudes of business students, the two most recent articles on this subject will be reviewed in depth; the literature pertaining to managers is reviewed in Table I. Only two studies focused on the attitudes of Russian business students (Ahmed et al., 2003; Thelen and Zhuplev, 2001). Ahmed et al. report findings of a comparative study among business students in China, Egypt, Finland, South Korea, Russia and the United States. Selection of these countries was not made on the basis of some *a priori* affinity between them that calls for comparison, but rather “countries where the authors have been teaching and the subjects are students attending their courses”. Respondents were presented with four business scenarios involving the failure of a car salesman to inform prospective buyers of a serious engine problem; the failure of a store manager to correct product misrepresentations; the failure of a store to inform consumers that a price discount was offered because the line of products was soon to be discontinued; and, the failure of a car dealer to adequately repair a car transmission under warranty. Respondents were asked primarily to state whether the issue is ethical or unethical and to estimate the possible harmful consequences of the action. The results showed that Russian respondents perceived less harm in all scenarios than students from the other countries surveyed, and indicated that they would follow the same action if they were in the managers’ position.

Thelen and Zhuplev (2001) studied the attitudes of 48 American and 58 Russian undergraduate business students on a series of ethical issues. Respondents were asked to relate to four business cases involving small Russian firms engaged in business with American businesses. The students chose a solution to dilemmas that were ranked according to five levels of severity of the decision, e.g. the least severe solution was “continue to negotiate in good faith” and the most severe solution was “for the company to use ‘muscle’ to get the business partner to see things their way.” There were significant differences between the two samples; the Russians and the Americans differed on all severity levels, with the Russians choosing the most severe decision alternatives, while the Americans chose less severe alternatives. The authors of the study concluded that in order to develop a business

relationship in Russia, both partners should jointly work out a code of ethics. A major limitation of this study is the absence of any demographic parameters of the samples. Nor was there any attempt to determine *a priori* ethical beliefs of either group.

Table I lists some of the more recent empirical studies that survey the state of moral and ethical behavior of managers in Russia. A summary of these studies shows that most were based on samples of managers in public, state run institutions (Despande et al., 2000a, b; Stewart et al., 2002), rather than private businesses. It may very well be that the ethical behavior of institutional managers may be different from that of entrepreneurs who operate in the marketplace. Moreover, those respondents sampled from industry were not stratified by function. It is possible that say, financial managers might react differently to ethical dilemmas than marketing or production managers. While there are differences in the samples used and the methodology employed in these studies, the results are unequivocal: Russian ethical standards are at a much lower level when compared to American managers.

Study methodology

Sample

A convenience sample of 110 MBA students was drawn from the Moscow State University, the Russian Academy of Foreign Trade, and the State University Higher School of Economics, all located in Moscow. Sixty three percent were females and 37 percent males. Five incomplete or biased (stereotyped answers) were removed, resulting in a final sample of 100.

The average age of the respondents was 26; 51 percent were single and the rest married. As far as religious orientation is concerned, 62 percent described themselves as “not religious at all”, 23 percent “kept traditions”, 8 percent were “religious” and 7 percent, “orthodox”. Most students were employed during their studies in marketing and management positions, so that their responses indicate both a reference to their work environment and personal values.

The questionnaire contained three sets of questions to determine ethical climate, the relationship

between ethical behavior and managerial success and attitudes to a number of ethical issues, as well as demographics of the respondents. The questionnaire used was adapted from studies cited below. Its original English version was translated into Russian by a bi-lingual PhD business student and then back translated into English by a teacher of Russian who is fluent in both languages. Students were also asked to state whether or not they had attended a course in business ethics. Fifty seven students had attended a business ethics course, while forty three had not.

Study parameters

Ethical climate

Ethical climate is a barometer of organizational practices that have moral consequences (Cullen et al., 2003). An ethical climate is not a characterization of an individual's ethical standards, but rather a component of the individual's environment as perceived by its members. It was measured using six classifications developed in previous studies (Victor and Cullen, 1987, 1988, 1990; Deshpande, 1996; Deshpande et al., 2000a, b). The six climates are: Law and Codes (people are expected to comply with the law and professional standards), Caring (our major consideration is what is best for everyone), Rules (every one is expected to stick by rules and procedures), Instrumental (people protect their interest above all else), Efficiency (the most efficient way is the right way), Independence (each person decides for themselves what is right and wrong). These climates were measured by a Likert-type scale, where 4 = "mostly true" and 1 = "mostly false". A high score on the scale denotes the presence of or belief in an ethical climate, while a low score denotes the lack of one.

Success and ethical behavior

To what extent do respondents believe that there is a relationship between ethical behavior and managerial success? This question was investigated by a series of issues that may be termed "ethical optimism" measured by five items developed by Hunt et al. (1984) and used also by Victor and Davis (1990) and Deshpande et al. (2000a). Each

TABLE II
Extent of ethical climate

Ethical Climate	Percent Agree	Mean	Std. Dev.
Law and codes	91	3.31	.662
Caring	44	2.35	.783
Rules	83	3.14	.711
Instrumental	78	3.06	.708
Efficiency	99	3.68	.489
Independence	97	3.62	.546

A four point Likert-type scale was used (1 = mostly false... 4 = mostly true).

item was measured using a four-point Likert type scale with 4 signifying "strongly agree" and 1 indicating "strongly disagree". The reliability of the scale was determined by factor analysis and coefficient alpha.

Ethical attitudes

In addition to ethical climate, students were asked to respond to fourteen statements that were intended to determine their attitudes towards a number of ethical and social responsibility issues (Grünbaum, 1997). Their answers were recorded on a Likert-type scale ranging from 1 = "completely agree" to 5 = "completely disagree". The answers to these issues were subjected to a correlation analysis with the results from the ethical climate and the success and ethics behavior scales. This analysis is reported below as part of the research findings.

Survey results

Ethical climate

As shown in Table II, nearly all respondents indicated a presence of Law and Codes, Efficiency and Independence in their work environment; a majority indicated a presence of Rules and Instrumental behavior, while nearly half indicated a presence of Caring. Measures of intercorrelations (Table III) among the ethical climate types showed moderate independence among the climates with significant positive correlations only between instrumental

TABLE III
Correlations among ethical climate types

	Law and Codes	Caring	Rules	Instrumental	Efficiency	Independence
Law and codes	1.00					
Caring	-.017	1.00				
Rules	.164	-.161	1.00			
Instrumental	-.040	-.111	-.077	1.00		
Efficiency	-.029	-.021	.101	-.177**	1.00	
Independence	.133	.078	-.148	.242*	-.195**	1.00

$r \geq .08, p \leq .05$.

*,.001, **,05

behavior (personal interest should be protected) and independence (each person decides what is right and wrong), and negative correlations between efficiency (the most efficient way is the right way) and instrumental behavior and independence. The finding of independence among ethical climate types is consistent with previous studies (Victor and Cullen, 1987, 1988; Deshpande, 1996).

Success and ethical behavior

First, we tested for scale reliability. As shown in Table IV, a two-factor solution was found (as opposed to a one factor solution in previous studies, cf. Deshpande et al., 2000). The scale has an acceptable reliability, given its coefficient alphas of 0.73 and 0.71 (Nunnally, 1978). The first component may be labeled as “unethical behavior”, while the second,

may be labeled as “unethical behavior toward colleagues”.

Our results (Table V) shows that students believe that in order to succeed, one must compromise their ethics. This statistic is a significantly higher percentage (84 percent) as compared to Russian manager respondents in Deshpande et al.’s (2000) survey (61 percent). In addition, a high percentage (86 percent) of respondents believes that successful managers “make rivals look bad in the eyes of important people” (in Deshpande, 40 percent). The high scores on the scale are indications that respondents perceive a strong relationship between managerial success and ethics. However, students believe that success in business is a function of unethical behavior, significantly more so than the Russian manager respondents in Deshpande et al. (2000a). These findings indicate that the student-future managers will not act any more (and perhaps

TABLE IV
Factor analysis of the ethical scale

	Component	
	1	2
In order to succeed it is necessary to compromise one’s ethics	.742	-.212
Successful managers withhold information that is detrimental to their self interest	.771	-.162
Successful managers make rivals look bad in the eyes of important people	.681	.411
Successful managers look for a “scapegoat”.	-.011	.728
Successful managers take credit for the ideas and accomplishment of others	-.115	.699
Eigenvalue	1.8	1.1
Explained variance	36.2	21.5
Coefficient alpha	.734	.712

TABLE V
Ethics and success

Descriptors	Percent Agree	Mean	Std. Dev.
In order to succeed it is necessary to compromise one's ethics	84	3.25	.744
Successful managers withhold information that is detrimental to their self interest	62	2.65	.833
Successful managers make rivals look bad in the eyes of important people	86	3.30	.810
Successful managers look for a "scapegoat"	69	2.94	.897
Successful managers take credit for the ideas and accomplishment of others	67	2.81	1.07

A four point Likert-type scale was used (4 = "strongly agree"...1 = "strongly disagree").

less) ethically than existing managers in Russian business enterprises.

Ethical attitudes

The attitudes of the business students towards a number of ethical issues such as bribe taking, being honest and the importance of self interest versus the interest of the organization or society are reported in Table VI. Any answer having a mean score of over 3 indicates agreement with the statement.

Respondents indicated almost complete agreement with the statement that places the well-being of a company above the well-being of the economy (a mean of 3.91). Perhaps this is indicative of an affinity with the managers of oligarchies in Russia that have amassed extensive profits at the expense of the tax collector (see for example, Klebnikov, 2003; Shadrin, 2004; White, 2004; Zudin, 2000). This view tallies nicely with the almost complete disagreement (mean = 1.32) with the statement that "holding companies . . . [of] international concerns are unacceptable because they are a form of tax avoidance".

There may have been some difficulty in the students' equating "honesty" with ethical or moral behavior. Seemingly out of context, respondents are in agreement (mean = 3.44) that "In business, honesty pays in the long run". According to Puffer and McCarthy (1996), Russian managers perceive honesty as essential in personal but not in professional conduct. Yet, students believe that honesty is also important in business. However, the students' response about honesty does not tie in with expressed attitudes such as agreement with the statement that consideration of moral dilemmas is dependent upon

the outcome (reward or punishment, mean = 3.66), a finding consonant with that reported by Stewart et al. (2002). Following an ethical path when it is considered useful for business (Apressyan, 1997) is practiced in Russia. Such moral thinking is at the lowest level of moral development of Kohlberg (1981, 1984). Research conducted by Kohlberg has shown that an individual's moral reasoning occurs predominately at one stage. Ethical decision-making and intended ethical behavior generally increases as individuals utilize higher stages of moral reasoning (Weber and Green 1991). Moreover, the desire for honesty in business is not equivocal with the lack of consideration for "equality and human rights" and the "consequences for other people" of one's decisions when facing a moral problem. Given that the student's level of moral development will not change appreciably in the future, ethical considerations will probably not play a significant part in their reasoning when confronted with ethical issues.

Some element of relativism is evident in the responses. Three statements are examples of this ethical philosophy. There was substantial agreement with the statements "When a foreign company conducts business in Russia, it should act according to the moral conceptions of Russian society" and "When the company that I represent conducts business in another country, it should act according to the ethical norms of that country". However, there was some disagreement with the statement permitting bribe taking in countries where this is customary behavior. Yet, the disagreement was not as strong as the agreement with the prior two statements.

The centralized economy and political structure, and collectivist ideology of the Soviet Union has produced a society whose actions are governed by following strict rules and regulations. Apparently,

TABLE VI
Ethical attitudes of Russian business students

	Mean	Std. Dev.
In business, honesty pays in the long run	3.44	.715
A person's actions may appear unselfish, but mostly s/he is concerned with her/his own interest	2.05	.857
A business manager cannot afford to deliberate on moral issues	1.93	.867
When people are faced with moral problems, emotions and intuition weigh more than rational arguments	3.41	.668
When the company that I represent conducts business in another country, it should act according to the ethical norms of that country	3.40	.619
The decisions of a business manager should be based on the well-being of his/her company; not the whole economy	3.91	.321
The holding companies established by international concerns are unacceptable because they are a form of tax avoidance	1.32	.548
In some countries, the taking of bribes is customary in business. When the firm I represent conducts business in these countries, I can take bribes as well	2.26	1.06
Social (for example environmental) problems should be solved by the government, not by business managers	3.37	.627
When a firm acts according to the law, it cannot act morally wrong	2.40	.682
When a foreign company conducts business in Russia, it should act according to the moral conceptions of Russian society	3.66	.554
In business, that which is legal is also ethically acceptable	3.52	.658
When facing moral problems, my decisions are influenced by		
Expected punishments or rewards	3.66	.497
The expectations of society	2.82	.796
Law and order	3.67	.532
Principles of equality and human rights	1.96	.665
Consequences for other people	1.66	.742
The acceptance of those close to me	2.12	.742
Religious conviction	1.69	.928

A four point Likert-type scale was used ("strongly disagree" = 1..."strongly agree" = 4).

TABLE VII
Personal ethics and attitude

Descriptors	In Order to Succeed, it is Necessary to Compromise One's Ethics
Rules	.258
	.010
Successful managers withhold information that is detrimental to their self	-.281
Social problems should be solved by the government...	.005
	.222
When a foreign company conducts business in Russia, it should act according to the moral conceptions of Russian society	.026
Principles of Equality and Human Rights	.208
	.038
The acceptance of those close to me	-.184
	.067
Religious conviction	-.220
	.028
	-.208
	.037

this ideology has not completely disappeared. Student respondents believe that “which is legal, is also ethically acceptable” (mean = 3.52). Their decisions when facing moral problems are influenced by “law and order” (mean = 3.67) and the “expectations of society” (mean = 2.82). Religious conviction does not play a role in solving moral problems (mean = 1.69). This finding corresponds with the fact that two-thirds of the respondents consider themselves “not religious at all”.

A further analysis looks at the relationship between personal ethics and the belief that it is necessary to compromise ethics in order to succeed in business. This analysis was done by a Pearson correlation between the belief of the necessity to compromise one's ethics in order to succeed in business and the entire data set. Table VII shows that seven descriptors from the data set were significantly correlated with the “compromise” descriptor.

Those that believe in compromising ethics also believe in sticking to rules (not necessarily ethical rules or codes), not withholding information, that social problems should be solved by the government, that foreign companies operating in Russia should follow Russian ethical practices. They also do not agree with a principle of equality, or the acceptance of their actions by persons close to them. Moreover,

the belief that compromising ethics is necessary for success in business is held more by those who do not practice a religion.

Managerial and research implications

This study has found that future managers in Russian enterprises and institutions will not adopt a more ethical modicum of behavior than that found in previous studies that report low levels of ethical standards among Russian managers. The high proportion of students who believe that it is necessary to compromise one's ethics (probably at a low threshold to begin with), and the emphasis on self interest rather than that of one's organization or of society is also alarming. One of the reasons for the lack of ethical considerations in business may be owing to the failure of ethics courses (or the lack of them) in Russian business schools. We found few significant differences in the answers of those who attended an ethics course (57 percent of those sampled) and those who did not. Thus, student perceptions and attitudes towards the questions posed in this study were not influenced by attendance at an ethics course. This may be due to the ineffectiveness of extant ethics courses and/or a lack of motivation on the part of

students taking them (Apressyan, 1997). This is a subject that should be investigated in order to determine how ethics courses might be improved and how students' interest in them can be heightened.

How should Western business people behave when doing business in Russia? Some authors suggest that Westerners should set an example to their Russian counterparts and uphold "the highest ethical standards" and act to "prevent, detect and punish" employee crime (Deshpande et al., 2000b, p. 182) when doing business there. Ideally, this should be done whenever possible. However, the strong belief (mean = 3.66) by students that when a foreign company does business in Russia, it should act according to the moral conceptions of Russian society, and differences in what is ethical and what is not between Russians and Westerners (e.g., Puffer and McCarthy, 1995) may serve as constraints to ethical behavior. How then, might this constraint be overcome? Given the positive attitudes shown by the student respondents towards law and order and professionalism, ethical codes of conduct should be accepted by employees of Western firms operating in Russia. The successful implementation of such codes might then be emulated by domestic firms as well.

Future research should investigate the extent to which ethical codes and other background or support structures are present in Russian enterprises and their success in motivating ethical behavior. American and other Western institutions such as ethics departments at universities should undertake mutual research programs in order to evaluate the effectiveness of Russian ethics courses and what can be done to improve them.

Note

¹ For a comprehensive review of corporate governance in Russia, see: Puffer and McCarthy (2003) and Filatotchev et al. (2003), McCarthy and Puffer (2002).

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