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Reintegrating Ethics and Institutional Theories

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Abstract Organizational ethics and institutional theories are extended by recovering Weberian and Pre-Weberian theorizing that emphasized the joining of ethics and institutional theories. Understanding how ethics and institutional systems influence each other can advance our understanding of the nature and causes of structural organizational ethics issues and help guide potential reforms. We consider the interplay of these elements during the recession of 2008–2009, highlighting how structural ethics problems may have to be addressed at the institutional levels and not solely the individual or organizational levels.

Keywords Organizational ethics · Institutional ethics · Politics

In order to be a good man one must first have been brought up in the right way…and living under the guidance of some intelligence [institutional logic] or right system.

– Aristotle, The Nicomachean Ethics

Visions of a new society [institutional systems] where it is easier to be good.

– Kropotkin, Fields, Factories, and Workshops (Kroptkin 1974 [1899])

Within modern management and organization studies, ethics phenomena have been addressed primarily at the individual, organizational, and individual-organizational interaction levels. Most studies look to the micro, individual level "bad apples" and more macro, organizational "bad barrels" as sources of unethical behavior (Trevino and Youngblood 1990; Brass et al. 1998) and often propose interaction effects between individual "apples" and organizational "barrel" variables (e.g., Ashkanasy et al. 2006). Only a handful of studies, however, look beyond individuals and their organizations to understand how the even more macro phenomena of institutions—"socially constructed, routine-reproduced, program or rule systems" (Jepperson 1991, p. 149)—concurrently influence the ethical nature and behaviors of both apples and barrels. Consequently, while scholars have emphasized the role of individuals and organizations in the interpretation of ethics, little has been done to explain how the existing "rules of the game of a society" (North 1990, p. 6) reflected in institutions influence the ethics of different actors. Attending to the assertions in the epigraph, we extend these metaphors, perhaps a bit too far esthetically if not conceptually, suggesting an Aristotelian epistemological approach that joins the analysis of ethics with institutional, organizational, and individual level behaviors (Nielsen 1996, 2003, 2010; Tsoukas and Cummings 1997; Solomon 2004).

The political-economist Schumpeter (1947) observed that while the entry of entrepreneurs sustained long-term economic growth in capitalist economies, all evolutionary forms of capitalist institutions have structural flaws embedded within their "creative destruction" evolutionary processes. However, Schumpeter, as do many modern economic, organizational, and management scholars, separated the study of institutional systems from explicit ethical analysis. This is sometimes referred to as a type of "separation thesis" (Searle 1964; Wicks 1996; Putnam 2002; Sandberg 2008; Harris and Freeman 2008). For example, while Schumpeter was studying the "destructive" effects of twentieth century "monopolistic practices" of "Trust" institutions that characterized many industries, he did not explicitly analyze ethical implications of these institutional practices. Schumpeter (1947)

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explained that it "…should be understood that it is only our appraisal of economic performance and not our moral judgment that can be so changed [i.e., moral judgments about changed capitalist institutions, practices, and effects]. Owning to its autonomy, moral approval or disapproval is entirely independent of our appraisal of social (or any other) results." In short, Schumpeter suggests that ethics and the study of the institutional determinants of performance could be seen as distinct and treated as such by scholars.

The merits of this type of "separation thesis" and its applicability to the social sciences in particular, however, are disputable and have historically been the subject of contention. For example, Weber (1949) in his *The Methodology of the Social Sciences* [essays from 1903 to 1917] states that objectivity, i.e., value-free scientific analysis was impossible. Thus, while Weber maintained that values could not be objectively evaluated by even the most well-intentioned of social scientists, this belief did not keep him from suggesting that social problems could be scientifically resolved—once a particular end or value (i.e., an ethos) had been established. Similarly, Veblen (1904, 1912 [1899], 1919) did not think that the separation of normative and technical concerns were appropriate and suggested instead that a more holistic or organic approach to understanding social phenomena be employed that did not simply obscure the researcher's own normative biases.

In this paper, we argue that all human institutions have structural ethics issues that are to some extent mutually derivative. That is, more macro human institutional systems can influence the more micro structural organizational ethics issues, i.e., the apples and barrels. Concurrently, these problematical, structural organizational ethics issues can influence the more macro institutional systems. It is in this spirit that the subject of mutual influence of macro and micro is approached rather than as an ethical criticism of only one form of institutional system or from a single level of analysis. Instead, an Aristotelian as well as later nineteenth, early twentieth century, classical, critical institutional epistemological approaches join the analysis of ethics with institutional, organizational, and individual level behaviors (Veblen 1904, 1919, 1904, 1919; Veblen 1904 [essays from 1903 to 1917]; Selznick 1957; Nielsen 1996, 2010; Tsoukas and Cummings 1997; Solomon 2004; Krier 2009).

We begin by reviewing and recovering key examples of pre-Weberian, classical Greek, and early, industrial literature, considering how some aspects of institutional and organizational ethics theory can be integrated—a joining that is seldom observed in modern management and organizational studies. This review is meant to be illustrative rather than exhaustive of the theoretical joining of ethics and institutional theories. We then shed light on the importance and practicality of this approach by drawing on examples from the Great Recession of 2008.

Ethics and Politics in Modern Institutional Theory

Much of institutional theory, particularly neo-institutional theory in management and organizational studies, begins with and draws from the sociologist Max Weber. For example, DiMaggio and Powell (1983, p. 1) begin their classic article, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields" with the following observation: "In *The Protestant Ethics and the Spirit of Capitalism*, Max Weber warned that the rationalist spirit ushered in by asceticism has achieved a momentum of its own and that, under capitalism, the rationalist order had become an iron cage in which humanity was, save for the possibility of prophetic revival, imprisoned 'perhaps until the last ton of fossilized coal is burnt (Weber 1952, pp. 181–182)." In this early institutional theory article and following Weber, institutions and organizational ethics are considered together.

A key point here is that Weber, as well as the more or less contemporary classical, critical institutional theorists such as Veblen (1904, 1919), Commons (1910), Brandeis (1913) and Selznick (1957) as well as pre-Weberian theorists that will be discussed below, explicitly, directly, and critically considered the iron cage as a normatively bad thing in an ethical sense. That is, ethical variables and issues were treated as ends in themselves and not solely or primarily as any other predictive or explanatory variable that is only important because it explains or predicts. To them, social sciences and ethics were "mutually inclusive" and required the "the acknowledgement of a value orientation [as a] prerequisite to objective evaluation" (Hoenisch 2006, p. 7). This is very different than much of post-Weber neo-institutional theory and post-Schumpeter political-economy (Swedberg 1987; Furubotn and Richter 1992; Hodgson 1994; Krier 2009) which favors "value-neutral" approaches to social sciences.

As was the case with post-Schumpeter institutional economics and political-economy, for the most part, neo-institutional theory since the early DiMaggio and Powell (1983) article has seldom explicitly considered ethics and the sustainability of ethical behavior as an end in itself. Haverman and Rao (1997), for instance, analyzed how there were feedback loops between organizational and industry ethics in the development of the savings bank industry. However, the article does not consider whether the emergent ethics were good or bad, simply remarking on their existence and leaving ethical judgment up to the reader. As such, the article studies normative variables in a non-normative, predictive, explanatory way. Similarly, Scott (2004) in his chapter, "Competing logics in health care" studied how the logic of equity of access to health care was in some competition to the logics of efficiency and market responsiveness. Equity of access could, and if we are concerned about the ethics of public policy and the health of our society, be considered an ethics issue and an end in itself. However, Scott doesn't offer an assessment of whether equitable access to healthcare might produce ethical "good" in society. Again, normative variables are treated not as normative ends in themselves, but as any other variable that might more or less explain or predict behaviors. And while these articles stand as exemplars of excellent social science, they are framed in such a way as to refrain from making ethical judgment, in spite of having the data to do so.

A handful of notable studies offer an alternative. Misangyi et al.'s (2008) "Ending Corruption: The Interplay Among Institutional Logics, Resources, and Institutional Entrepreneurs," for instance, focuses on how corruption is a normatively bad thing that *needs* to be changed. The article considers how corruption reformers act as institutional entrepreneurs, doing institutional work, who try to change institutional logics that permit systematic corruption. The article considered how institutional theory can help corruption reformers enact ethical changes to extant systems. This form of integration, rather than the separation we see in most modern institutional theory articles, is often considered more characteristic of classical, critical institutionalists such as Veblen, Weber, Selznick, and the pre-Weberians, but could be a part of modern neo-institutional and organizational studies.

To a somewhat lesser extent than the almost total exclusion of explicit normative, ethical analysis in modern neo-institutional theory, and also with some notable exceptions, institutional political-economy is not frequently considered within modern neo-institutional theory. North's (1990) work provides an exception, but views institutions as political and economic regulations functioning as constraints of the individual choice and activity rather than being also normative and regulative in their nature as enabling rather than just constraining individuals. A notable exception is the Campbell (1998) article, "Institutional analysis and the role of ideas in political economy." Campbell (1998) explains how "the rise of supply-side economics was very much an intellectually and politically contested process in which powerful think tanks and other organizations mobilized substantial financial resources to influence policy making at the ideational level." What Campbell is referring to here as "ideational" are different ideas about different political-economic institutional systems; in the case of his article, trickle-down, supply-side versus more bottom-up, demand-side Keynesian political-economic logics. Campbell explains how political-economic ideas influenced institutional logics which in turn influenced organizational behaviors.

In another important example of joining neo-institutional theory and political-economic institutional theory, Campbell (2007) makes comparisons between Northern European Social Democratic and U.S. political-economic logics with respect to the institutional logics of social responsibility and regulation. The different political-economic logics have very different approaches to regulatory institutional logics and social responsibility practices. Similarly, Matten and Moon (2008) explicitly compare "neo-institutional theory and institutional legitimacy" between different political-economic logics "liberal market economies" and "coordinated market economies" as explanations for different approaches, "implicit" and "explicit," to corporate social responsibility. This relative lack of attention to joining political-economic theory with neo-institutional theory is critically analyzed by Clegg (2010, p. 1). More specifically, Clegg notes the "The central importance of the state for early institutional accounts, its relative absence from more current ones…."

Pre-Weberian Links Among Institutions and Ethics Issues

We now turn our focus to some examples from pre-Weberian sources where organizational ethics and institutional theory were joined. As referred to above, the purpose of this review is not to be exhaustive, but to offer illustrations of what was a stimulus to consideration of what could be again with respect to the joining of ethics and institutional theory. Homer and Aristotle are used as pre-modern examples and Andrew Ure is used as an example of early modern industrial joining of ethics and institutional theory. Following this discussion, the importance and practicality of joining versus separation are considered in the context of more modern late nineteenth century and contemporary ethics and institutional theory.

Aristotle and Classical Greece

The idea of the joining of institutional logics and ethics can be traced, albeit tenuously, as far back as Homer's epic story of the Iliad. For example, in Homer's story of King Agamemnon leading the Western Greek city-states in the war against Troy, the Greek leader-warrior Achilles criticizes King Agamemnon for acting unethically during the invasion of the eastern city-state of Troy and questions the institutional logic of a system (i.e., monarchy) that permits a king to act unethically as a leader without accountability (Fitzgerald 1974; Kearney 1988). At another point, Achilles compares and even praises the Trojan king, Priam, as acting more ethically as a person, and the Trojan institutional system that produces a king such as Priam who defends his city and does not seek invasion and conquest. However, while raising questions about the Western Greek institutional system of monarchy and problematical associated logics that are related to ethical issues, Homer and Achilles do not offer direct answers or alternatives.

The theme of interactive relationships between ethics and institutions is continued more explicitly in Aristotle's (1941) *Nicomachean Ethics* and in his *Politics*. Book one of Aristotle's Nicomachean *Ethics* (W.D. Ross translation in McKeon 1941) is concerned with the ends of activities. For Aristotle, the end or reason for being of business (household) institutional management and economic science was the creation of wealth. Aristotle considered involuntary poverty a bad thing that could greatly limit most people's and societies' ethical development. Aristotle (McKeon 1941, p. 935) explains that "Every art and every inquiry, and similarly every action and purpose, is thought to aim at some good…the end of medical art is health…that of economics wealth." In Book I, Chap. II of the Politics, Aristotle considers examples of more and less ethical ways of creating wealth. Among the less ethical methods are institutional monopolies that can be created by individuals and by states. Aristotle (Benjamin Jowett translation in McKeon 1941, p. 1142) observes that the person, "Thales the Milesian…gave deposits for the use of all the olive-presses in Chios and Miletus…When the harvest-time came, and many were wanted all at once and of a sudden, he let them out at any rate which he pleased…the creation of a monopoly…is an art often practiced by cities when they are in want of money; they make a monopoly of provisions."

In Aristotle's view, both individuals and states can practice ethically problematical behaviors. In Book II of the *Politics*, Aristotle considers how different types of institutional systems have different types of logics with respect to the institution of private property which in turn can influence different types of structural ethics issues. Finally, in book ten of Aristotle's *Nicomacean Ethics* and in the *Politics*, Aristotle considers how institutional systems can influence institutional logics which in turn can both positively and negatively influence structural ethical issues in the management of businesses (households) as well as individual behaviors (Nielsen 1996; Tsoukas and Cummings 1997; Solomon 2004). Aristotle analyzes the institution of property of the Lacedaemonians, also known as Spartans, who had a political-economy that might be considered in contemporary language as a type of nationalistic, militaristic, socialist state, perhaps even a form of National Socialism. Dominant logics within this system considered the institution of private property very differently than the Athenian system. Aristotle in Book II of the *Politics* (McKeon 1941, p. 1151) explains how "The Lacedaemonians…use one another's…horses, and dogs, as if they were their own; and when they lack provision on a journey, they appropriate what they find in the fields throughout the country." Aristotle then goes on to explain how this type of institutional logic can create a structural ethics issue. Aristotle (McKeon 1941, p. 1153) further explains that "…there is the greatest pleasure in doing a kindness or service to friends or guests or companions, which can only be rendered when a man has private property. These advantages are lost by excessive unification… The exhibition of…virtues…is visibly annihilated in such a state…No one, when men have all things in common will any longer set an example of liberality to do any liberal action." For Aristotle, the Lacedaemonian institutional logic of "excessive unification of property" influenced the structural ethics virtue of "liberality" and "kindness or service to friends or guests or companions."

In later chapters, Aristotle discussed the idea of praxis as the ethical, developmental means for achieving ethical ends. Both ethical ends and ethical means were important for Aristotle. For Aristotle, the student of ethics must apply himself to politics to achieve the ethical at more macro organizational and institutional levels beyond personal, individual virtue and behavior (Nielsen 2010).

Ure (1835), Early Industrialization, and Competing Institutional Logics

Most studies examining institutional systems and their ethical implications in western economies, and particularly the emergence of dominant economic logics within the United States, rely heavily on the work of Adam Smith. But, while Adam Smith could also be used as an example of an early modern and early industrialization example of integrating ethics and institutional theory, we are focusing on the work of Andrew Ure because the modern factory and industrial institutional system were much more developed when Ure was writing. For example, Ure (1835, p. 19) in referring to Smith's work explains that "When Adam Smith wrote his immortal elements of economics, automatic machinery being hardly known, he was properly led to regard the division of labour as the grand principle of manufacturing improvement; and he showed, in the example of pin-making [institutional logic], how each handicraftsman, being thereby enable to perfect himself by practice in one point, became a quicker and cheaper workman…. But what was in Dr. Smith's time a topic of useful illustration, cannot now be used without risk of misleading the public mind as to the right principle [institutional logic] of manufacturing industry. In fact, the division, or rather adaptation of labour to the different talents of men, is little thought of in factory employment. On the contrary, wherever a process requires peculiar dexterity and steadiness of hand, it is withdrawn as soon as possible from the cunning workman, who is prone to irregularities of many kinds, and it is placed in charge of peculiar mechanism, so self-regulating, that a child may superintend it…. The grand object therefore of the modern manufacturer is, through the union of capital and science, to reduce the task of his work-people to the exercise of vigilance and dexterity—faculties, when concentrated in one process, speedily brought to perfection in the young."

Another reason that Ure is being used as an example instead of Smith is that Marx used Ure much more than Smith to criticize the institutional logic and structural ethics issue of the "sweat-shop" conditions rather than the more abstract theories of specialization and industrialization of Smith.

Ure (1835) may also be the first modern organizational theorist to recognize the existence of feedback loops between institutional logics and structural organizational ethics issues. In addition, he may be the first to have recognized how there can be competing logics within institutions such as the factory institution that he studied in the early years of industrialization. A key book of his that considered these relationships and conflicting logics was his 1835 book, *The Philosophy of Manufacturers: Or, an Exposition of the Scientific, Moral, and Commercial Economy of the Factory System of Great Britain.*

Ure was writing in the early 1830s, when industrial capitalism was still an emerging and a relatively small part of the total economy relative to the dominant and more feudal power structure of royals, large domestic and colonial landowners, military, and official state religion (Beaud 2000). For example, the factory institution that Ure studied represented a minority of textile production in England. According to Edwards (2001, p. 19), "The economy of the 1830s even in the Lancashire cotton districts, was dominated by artisanal forms of production and small workshops. During the 1830s and 1840s, the average size of factories in…textiles, even in the North West [northwest England], remained at fewer than one hundred employees."

Ure recognized that the change in political-economic institutions from a more feudal system to a more industrial capitalist system would greatly influence institutional logics of production as well as structural ethics issues. Ure was perhaps ahead of his time in recognizing that there were multiple and sometimes competing institutional logics that accompanied the changed institution of production that was embedded within the change from the more feudal to the more industrial production systems. For Ure, who was a great optimist, perhaps even a utopian, and/or apologist for the emerging factory institutional system of production, the different logics were more complementary than competing, a conclusion quite different from Marx's critical analysis of factory conditions and competing institutional logics 50 years later as well as Weber's and Veblen's critical analysis 75 years later, as well as more contemporary institutional scholars who recognized the occasions of problematical competing institutional logics (Thornton 2004; Scott 2004).

More specifically, Ure considered three different and to some extent competing institutional logics within the more industrial institutions of production: scientific logics, moral logics, and commercial logics. Ure (1835, p. 55) explains as follows, "The object of manufactures is to modify the productions of nature into articles of necessity, convenience or luxury, by the most economical and unerring means. They have all three principles of action…the mechanical, the moral and the commercial, which may not unaptly be compared to the muscular, the nervous, and the sanguiferous [blood circulation] systems of an animal." To some extent, with these natural, biological analogies, Ure also anticipated the self-correcting equilibrium, natural law, market approaches of modern, neo-liberal political-economic institutional logics. What was the "natural law of factory organization" to some theorists such as Ure was an "iron cage" to others such as Weber and Veblen. However, what both approaches had in common was the consideration and joining of ethical and institutional analyses.

Ure appeared to believe and hope that industrial factory institutional logics would improve structural ethics conditions and liberate both production and people from the former, pre-industrial, lower-level, animal-like feudal institutional logics. The mechanical logic would replace the muscular logic. Science and reason based mechanical production would replace the more animal-like, compulsion driven labor logic. The commercial logic of production scarcity would be replaced by productive abundance. Ure (1835, p. 1) was so optimistic and even utopian to even believe that "heavy" labor would no longer be necessary and that "the most perfect manufacture is that which dispenses entirely with manual labour. The philosophy of manufactures is therefore an exposition of the general principles on which productive industry should be conducted by self-acting machines."

The point of this discussion of Ure is not to suggest that Ure was correct in his optimism for industrial capitalist institutional, factory production logics and a near ethical utopia of production abundance and people being freed from manual labour and scarcity. After all, Ure did fail to anticipate the period of factory "sweat shops" that emerged shortly after his book was published. Rather, the point is that in addition to classical Greek ethics and politics, these relationships among institutional logics and structural ethics issues were recognized by some in the early stages of industrialization.

Ure recognized, as did Adam Smith, that the political-economic institutional system of England as well as other parts of Northern Europe was changing from an essentially feudal institutional system to a factory institutional system. In a feudal system, the key power institutions were the Royals, the large landowners, the military, and official state-supported religious institutions. Feudal societies increased their wealth through invasion and accumulation of more land and agricultural workers. Political-economists such as Smith and Ure recognized that industrialization represented a fundamentally different type of institutional system. Wealth and productivity could be increased more through factory production, banking, and trade than through the more pre-modern land based agriculture, invasion, and conquest model.

While Smith and Ure compared the emerging industrial market system with the earlier feudal system, Ure went farther than Smith with respect to recognizing that there were not just different logics between feudal institutions and industrial institutions, but there were also simultaneous, different, and to some extent competing logics within the emerging industrial institution.

In the following sections, we discuss the practical and theoretical benefits of joining organizational ethics and institutional analysis and theory building.

Benefits to Joining Structural Ethics and Institutional Analysis

There are at least three reasons for why it is important to join organizational ethics and institutional analysis and theory building. Examples from the Great Recession of 2008–2009 will be used to illustrate the following points. First, an important part of the cause of an ethical problem can be at the institutional level and not solely at the organizational and individual levels. Second, institutional logics can be very different with correspondingly different ethical implications. Third, understanding institutional influences on structural organizational ethics issues can suggest different types of intervention strategies.

Institutional Sources of Ethical Issues

Ethical issues can arise out of the institutional level and not solely at the organizational and individual levels. The Great Recession of 2008–2009 is an important example from a Schumpeterian perspective of a relatively new evolutionary form of institutional capitalism, high leverage finance capitalism, that contains structurally related ethics issues as do many forms of capitalist and social institutional systems (Useem 1996; Baskin and Miranti 1997; Ferguson 2008; Nielsen 2008, 2010; Krier 2009; Posner 2009; Bogle 2005; Stiglitz 2010). Leverage generally refers to the amount of money borrowed by an investor/trader relative to the amount of secure capital owned or invested by the investor/trader. The idea and practice of leverage and borrowing more money than one's own capital goes back at least as far as the ancient Phoenician and Greek traders and merchants (Ferguson 2008; Beaud 2000). Leverage can produce normatively positive, i.e., good, results. For example, leverage can enable families to buy homes with only 10–20 % of the sales price of a home, and consequently have a home to live in some 20 years before it would take the family to save all the money required to purchase a home. Leverage can enable business investors to start and expand businesses and economic development projects with only 10–20 % of the cost of the investment project.

Issues tend to surface when leverage is employed in excess. This point can be related to Aristotle's ethical principle of proportionality where something is less abstractly right or wrong than it is too much or too little, in this case too much leverage. There are at least five types of modern institutional high leverage finance capitalism: (1) high leverage hedge funds; (2) private equity—leveraged buyouts; (3) high leverage, subprime mortgages; (4) high leverage banking or, at an extreme, banks that, in effect, operated as if they were high leverage hedge funds; and (5) high leverage government debt where governments and central banks borrow high multiples of tax revenues to finance economic bailout and stimulus programs. For example, the U.S. Federal Reserve has spent around $3.3 trillion (much larger than the Congressional approved $700 TARP program) in loans to financial institutions and purchases of financial instruments from financial institutions. Excess also came in the form of subprime corporate debt (junk bond corporate debt and highly leveraged Private Equity-Leveraged Buyout debt) that was substantially larger than subprime consumer mortgage debt in 2008, about $1.2 trillion compared to about $1 trillion of subprime consumer mortgage debt (Kosman 2009; Acharya et al. 2007; Nielsen 2008, 2010). Also, there were many more trillions of high leverage derivatives, about $30 trillion, related to the subprime consumer and high leverage corporate debt (Posner 2009).

The ethics issue of proportionality and prudence is directly related to the institutional system and logic of high leverage finance capitalism. Aristotle in Book 2 of the *Nicomachean Ethics* (W.D. Ross translation) concludes that "Virtue, then, is a state of character concerned with choice, lying in a mean …by which the man of practical wisdom [phronesis, prudence] would determine it… a mean between two vices, the one involving excess, the other deficiency, and that it is such because its character is to aim at what is intermediate in passions and in actions… For in everything it is no easy task to find the middle."

How might a high leverage finance capitalism institutional logic be interpreted according to such an Aristotelian criterion? The question is less about whether leverage is a good thing or a bad thing, but what might be too much leverage? For many families and businesses, it would be very difficult to buy a home or develop a business without borrowing any money with no leverage. Not borrowing any money would be bad for wealth creation, the Aristotelian end of economic and business activity. What would too much borrowing and too much leverage be?

In traditional home mortgage banking, debt servicing costs were considered prudent at around 25–30 % of disposable income. In traditional corporate finance, a debt to equity ratio of 3 to 1 was often considered prudent. In traditional banking, lending levels relative to secure capital were in the range of 10–15 to 1. How did these traditionally prudent leverage levels compare to the ratios that precipitated the financial crisis? They were much higher. Leverage ratios of many financial institutions in the period from 1980 to 2008 rose from traditional levels of 10–15 to 1 to over 30 to 1 and even 50 to 1. That is, in the traditional banking and finance logic, a 10 to 1 ratio meant that a bank would borrow and lend $10 for every $1 dollar of secure, invested capital. With a high leverage finance logic of 30 or 50 to 1, financial institutions would borrow and lend $30 or $50 for every $1 of secure, invested capital. This exponentially increased both the potential for up-side gains and down-side losses. For example, with a leverage ratio of 30 to 1, a 10 % positive return would represent a $3 return on the $1 dollar of capital before expenses such as interest charges. However, a loss of $3 on the $1 dollar of capital more than wipes out the capital. That is why so many financial institutions around the world are in need of recapitalization and bailout. As referred to above, an important part of the cause of an ethical problem can be at the institutional level and not solely at the organizational and individual levels.

Ethical Problems Emerging Out of Different Institutional Logics

Institutional logics can be very different within different types of political-economic institutions with correspondingly different ethical problems. There are some important differences in the institutional logics of the U.S. Federal Reserve within the more finance capitalistic U.S. institutional system compared to the European Central Bank within the more social democratic Northern European institutional system with respect to stimulus/bailout programs that have important ethical implications (Hill 2010). The U.S. is characterized more by an institutional logic with an emphasis on supply-side, trickle-down bailout/stimulus logic, and the European Union, particularly the Northern part, is characterized more by balance between demand-side, bottom-up logic and a top-down, supply-side, trickle-down bailout/stimulus logic.

For example, Bernanke (2010), current Chairman of the U.S. Federal Reserve, explains that "Higher stock prices will boost consumer wealth and help increase confidence and increase spending. Increased spending will lead to higher incomes and profits that, in a *virtuous* [out italics] circle, will further support economic expansion." Within this logic, the relatively few with large stock holdings will first benefit and then, it is expected and hoped, the benefits will trickle-down to the larger and poorer percentage of the population with no or relatively little stock holdings (Browning 2009).

Similarly, Greenspan (2010), former Chairman of the U.S. Federal Reserve, explains that, "although rising moderately this year, US fixed capital investment has fallen far short of the level that history suggests would have occurred given the recent dramatic surge in corporate profitability. Combined with a collapse of long-term illiquid investments by households, they have frustrated economic recovery. This shortfall, the result of widespread private-sector anxiety over America's future, has defused much, if not most, of the impact of the administration's fiscal stimulus… This would imply that the federal deficit as a percentage of GDP since September 2008 accounted for as much as a third of the…shortfall in business capital investment since early 2009… The critical question, of course, is how much of a contraction in deficits and a decrease in the frenetic pace of new regulations can assuage the sense of a frightening future, allowing the natural [a neo-liberal logic similarity to Ure's natural law formulation] forces of economic recovery to take hold…." Again, this represents a trickle-down logic and approach from the richer to the poorer in contrast with the more balanced and bottom-up approach of the European Central Bank logic illustrated below, which is related to the different types of institutional logics with different types of structural ethics issues.

This type of supply-side, trickle-down stimulus/bailout logic is different from the European more Social Democratic, balanced, demand-side, bottom-up logic. For example, Trichet (2008), President of the European Central Bank, explains: "The role of automatic stabilizers [e.g., high and long unemployment benefits, state support for health care, pensions, adult education, etc.] is also important…. If I compare the euro area—but I think this would also be true for Europe as a whole—with the US, we have public spending as a proportion of GDP that is significantly higher than in the US. We have a social safety net and social protection in general which is more comprehensive than in the US, and hence the role of automatic stabilizers is significantly more important. It represents a much larger part of GDP. An order of magnitude could be that for the same decrease of GDP, you would have perhaps twice as much influence of automatic stabilizers as a percentage of GDP in the euro area as compared with the US."

Similarly, Stark and (2008)Executive Board Member of the European Central Bank notes that "the automatic fiscal stabilizers in the euro area amount to about 1 % of GDP.

They provide a powerful source of fiscal support for a weakening economy. And this type of stimulus is automatically reversed when economic conditions improve…. It is clear that the benefits of tighter regulation are larger than thought some quarters ago…. New regulations should…. discourage 'short-termism' and promote a medium to long-term attitude of financial agents towards success and stability…strengthen…the concept of liability and responsibility. It must be clear for those who engage in risky activities that they will be held accountable if these risks materialize…. Both bank management and supervisors will have to play a more active role in scrutinizing risk management practices…especially with regard to off-balance sheet entities and structure products. This should hold true not only in time of crisis but maybe even more important in good times when risks are less obvious." As referred to above, institutional logics can be very different within different types of political-economic institutions with correspondingly different ethical problems.

Interventions Based on Different Institutional Logics

Understanding of institutional influences on structural organizational ethics issues can suggest different types of intervention strategies. The above examples from the U.S. Federal Reserve and the European Central Bank contain both institutional logics and intervention strategies. In the U.S. finance capitalism example, the Federal Reserve intervened to provide more than $3.3 trillion in near 0 % interest rate loans to financial institutions who were largely responsible for causing the financial crisis (Reilly and Winkler 2010). This created a problem of "moral hazard."

It appears to have been beyond the institutional logic of finance capitalism to provide similar very low cost loans by the Federal Reserve to families. If the U.S. Federal Reserve had provided similar low cost, near 0 %, loans to families, not only would banks have been recapitalized, but also families would have been significantly recapitalized. There would not have been nearly as large a home foreclosure crisis. Subprime mortgage loans were about $1 trillion, far less than the money lent at very low rates to financial institutions (Posner 2009). Incidentally, most of the subprime mortgage loans were not made to poor families (Krugman 2009).

Intervention strategies were also included within the more social democratic, European Central Bank logic. Northern Europe in particular relied much more than the U.S. did on "automatic fiscal stabilizers" such as high unemployment benefits, no layoff policies, national health care, national pension systems, low cost adult education, etc., to maintain demand which has resulted in unemployment rates half that of the U.S. Maintaining the win–win, social democratic, social contract was a high ethical priority in Northern Europe (Abboud and Gauthier-Villars 2009; Nielsen 2010).

More micro ethics intervention strategies can also be developed based on an understanding of institutional logics. For example, in the U.S. finance capitalism institutional system, there are at least three reasons why regulators are often not responsive to ethics whistle-blowers (Leavit 2002; Gill and Lipsmeyer 2005; Green 2002; Davis 2009; Mullins and Farnam 2009; Posner 2010). First, regulatory agencies are sometimes intentionally understaffed as part of the logic of minimal regulation so as not to interfere with *natural* market processes. Second, the institutional system contains large financial incentives for young regulators to learn on the job and then leave after a few years to work for lobbying firms. Third, lobbyists pay a large part of the campaign contributions to the politicians who appoint the regulators. In the last U.S. Federal elections, the average cost of running for Congress was over $6 million. Some candidates spent over $100 million. The salary of a Congress person is $175,000 per year. The *Financial Times* (McGregor and 2011) estimates that in the 2012 Presidential campaign, the two candidates from the Democratic and Republican parties will spend over $2 billion, double the 2008 cost.

Understanding these features of the institutional system can help guide the intervention strategies of the ethics whistle-blower. Since the regulators are often under staffed, it can be helpful for the whistle-blower to explain to the regulator, or hire a lawyer to explain to the regulator, that among the mountain of cases the under-staffed regulator could process, the whistle-blowing case is worthy of attention. In addition, since the young regulators are often inexperienced, the whistle-blower or the lawyer hired by the whistle-blower may need to explain the features of the case that the regulator may not understand and needs to pay attention to. Further, since the regulator may not want to offend the lobbyist who contributed large sums to the political campaigns of the politicians who appointed the regulator, the whistle-blower may have to create a negative incentive for the regulator to act by threatening the regulator with exposure if the regulator does nothing about the information the whistle-blower provides. (Three whistle-blowers who prefer to remain anonymous 2009.)

On a more macro level, there are, for example, strategies for protecting one's business from a leveraged buyout that is based on an understanding of the institutional logic of finance capitalism and the practice of short-term shareholder value logic (Jensen 2002). For example, U.S. pharmaceutical firms spend four to six times as much on short-term sales promotion as on long-term research and development. The pharmaceutical firms do this because of the short-term shareholder value maximization pressures that they are under. Novo Nordisk, the Danish pharmaceutical company, spends more on research and development than sales promotion (Jacobsen and 2001; Nielsen 2008). In part, to protect itself from a hostile take-over from U.S. or British leveraged buyout companies that would transform the long-term, research and development oriented company into a short-term shareholder maximization and high leverage business, the company created voting and non-voting shares. Novo Nordisk assigned the voting shares to a nonprofit organization with a charter that prevents it from selling its voting shares to a take-over firm. *The New York Times* and *The Washington Post* have similar arrangements. Until recently, the French newspaper *LaMonde* had a similar arrangement. As referred to above, understanding of institutional influences on structural organizational ethics issues can suggest different types of intervention strategies. This is an important reason for joining analyses of how institutional logics and organizational ethics issues are linked.

Benefits to Joining Structural Ethics and Institutional Theoretical Streams

As referred to above, there are important practical benefits from joining organizational ethics and institutional theories. Each of the theoretical areas can also benefit from joining. Potential theoretical gains for organizational ethics and institutional theory are discussed below.

Benefits of Joining for Organizational Ethics

How can organizational ethics theory benefit from understanding links with institutional theories? As referred to above, the causes of organizational ethics problems can be at the more macro institutional levels and not just at the individual and organizational levels. As referred to above, the high leverage finance capitalism institutional systems and the associated institutional logic of short-run profit maximization through high leverage were important causes of the financial and economic crisis. The causes of the Great Recession of 2008–2009 were much more than a few rogue individuals or "bad apples" and even more than a few rogue organizations or "bad barrels." This is illustrated in the notorious quote of Charles Prince, the former CEO of Citigroup, "That as long as the music is playing, we have to dance, and the music is still playing." The music he is referring to is, in part, the institutional logic of short-term, high leverage finance capitalism. Both the individual behaviors of Citigroup managers as well as the behavior of the organization as a whole were very much influenced by the institutional logics and systems that Citigroup operated within.

There are important benefits here for organizational ethics. Since important parts of the problem are caused at the institutional levels, solutions both with respect to navigating within the institutions and logics as well as changing the institutions and logics [institutional work] need to be informed by the institutional theories. For example, and as discussed above with respect to navigating within the systems and logics, micro whistle-blowing methods need to be adjusted to the obstacles and constraints within the high leverage, finance capitalism institutional system and logic.

In addition to informing how we need to navigate within institutional logics to solve organizational ethics problems, this joining of organizational ethics with institutional theories also suggests that those concerned with understanding the causes of organizational ethics problems and solving those problems may also have to consider how to change institutional systems and institutional logics (Lawrence et al. 2009). That is, if the cause of the organizational ethics problem lies significantly at the more macro institutional level, long-term solutions to organizational ethics problems may require that institutional systems and logics need to change and/or be changed. This would represent an important new direction for the field of organizational ethics which, for the most part, looks at change efforts and methods at the more micro individual and organizational levels. How can organizational ethics scholars learn from institutional theory in order to contribute to changing and hopefully improving institutional logics and systems?

Benefits of Joining for Institutional Theory

A key intellectual, and book, in the history of political-economic institutional thought and methodology was Alfred Marshall, and his (1890) book, *Principles of Economics*. Marshall is often considered one of the founders of modern economics as a science. Marshall studied ethics, economics, and mathematics at Cambridge University. He was explicit about the ethical motivations and intentions of his work as were Weber and Veblen. He entered the field of economics because of an ethical concern and motivation to learn how to improve the lives of ordinary working class people (Groenewegen 1995). He also studied mathematics because he thought that the joining of mathematics with economics could improve the power of economics as a social science for helping realize his ethical concern about improving the lives of ordinary working class people. Ethics here was not just one of many possible implications of his work, but a primary motivation for what he studied.

However, for Marshall, this required what he thought should and would be a temporary separation of ethics from social science because he believed that while his primary motivation was ethics, the science of economics first had to be better developed as a science and then later applied to ethical and social problems. What Marshall viewed as a temporary separation of ethics and social science has become permanent for many modern economists and institutional theorists.

Marshall's book and methodology was a key influence in transforming economics from an inductive, organic, holistic analysis of economic institutions with an explicit ethics dimension to a much more social scientific, deductive, logical positivist approach. That is, Marshall's method was to develop theory building propositions from reasoning within the economic literature, represent the reasoning in deductive mathematical form, and then do theory testing of the reasoning and mathematical propositions with empirical data. A basic tenet of the approach was that any claims to truth had to be verifiable with mathematical rigor and/or empirical data. However, the data he looked at were far from a convenience data site. It was driven by ethical motivations that he was transparent about.

From this scientific perspective, a concept or proposition was cognitively meaningful only if there was a mathematical and/or empirical procedure for conclusively determining whether it was true or false. For Marshall, a temporary consequence of this approach was that normative, ethical statements could not be so verified and therefore had to be separated temporarily from this type of social scientific economic analysis. His expectation and hope was that once economic social science was sufficiently developed from a scientific perspective, economists would then re-join ethics and economics.

Part of the general methodology of modern economics that began with Marshall is to gradually reduce the assumptions on which the deductive principles are based through extended theory building that releases assumptions and extends the theory building to include more variables and concepts. The accumulation of more data through theory testing as well as greater inclusion and specification of theory building relationships extends and expands the theories as the assumptions are released. However, for the most part in modern economics unlike the economic, institutional work of Marshall, Weber, Veblen, and Schumpeter, Selznick, the explicit ethical motivations of the work are usually not discussed. Ethical and social discussions, if any, are for the most part left to the small implications sections of economic research. This does not mean that ethical motivations for scientific economic work are not there, but they are not, for the most part, revealed or discussed.

For example, another mathematician turned economist, Diamond (1981, 2008), who won the 2010 Nobel Prize in economics, released the assumption of the efficient market institution with respect to labor markets and explored rigidities in labor markets that caused higher than previously expected unemployment rates. Diamond's analysis did not explicitly mention ethical motivations or implications, but nonetheless, included implicit ethical consideration of the ethical and social problems of high unemployment as a social problem. Diamond then considered how such rigidities required different types of government sponsored counter-measures to reduce unemployment without explicitly discussing the ethical dimensions of why we should care about unemployment or why governments should develop counter-measures to solve the problem of labor market rigidities.

Even with only implicit ethical dimensions, joining of ethical and normative concerns with social science can cause problems for social scientists. Professor Diamond's nomination to be a Federal Reserve Governor by President Obama has so far been blocked by Senators such as Senator Richard Shelby of the Senate Banking Committee, who, from a different and explicit ethical perspective, thinks that it is normatively better for the country to reduce rather than increase the role of government in the area of unemployment counter-measures. Senator Shelby (Harding 2011, p. 6) explains, "In short, Mr. Diamond is an old-fashioned, big government Keynesian…Many of us believe that is not the economic philosophy the Fed should be embracing…"

A similar phenomenon seems to have occurred with the separation of classical institutional theory from neo-institutional theory. A very important concern of neo-institutional theory building and testing is rigorous social science that, in effect and as in economics, separates the normative study of ethics from the social scientific study of institutions. From a social science perspective, ethical variables can be used in social science as explanatory or predictive variables, but normative, ethical statements are not so verifiable and need to be separated, a type of "separation thesis" referred to earlier.

As referred to above, an example of this type of separation can be seen in the Scott (2004) chapter on "Competing logics in health care" that illustrated and explained how there were competing logics of equity of access to health care with the logics of efficiency and market responsiveness. There appears to be great potential here for extending institutional theory to include explicit normative concern as both motivation for doing this type of research on health care as well as explicit ethical discussion of policy implications. For example, a researcher could explicitly reveal whether the data studied were simply a convenience data site or whether there was an intentional ethical concern that drove the formulation of the study and consideration of how competition between the logics of equity of access to health care and the logics of efficiency and market responsiveness is also an ethical problem that needs to be addressed and solved.

Clegg (2010) addressed a similar point with respect to relationships among institutional theory, political power, and normative concerns. Clegg (2010, p. 5) explains: "Three ideal types of mechanism of organizational change by institutional isomorphism have been sketched: coercive (when external agencies impose changes on organizations—most obviously through practices of state regulation), normative (when professionalization projects shape entire occupational fields), and mimetic mechanism (essentially the copying of what is constituted as culturally valuable ways of doing or arranging things)…. Interest in the latter has far outweighed the former two in U.S. empirical studies as Greenwood and Meyer (2008) note, whereas European researchers have been more oriented to the role of the state and other regulatory agencies, such as standards-setting bodies (see Higgins and Hallstrom 2007)."

For some modern institutional theorists such as Clegg, this relative emphasis on mimetic mechanisms and relative inattention to coercive (political power based) and normative mechanisms is a problem for two reasons. First, such a separation approach pays relatively less attention to potentially important coercive and normative explanations. Second, such a separation approach can ignore ethical and social problems that need to be addressed as ends in themselves. Clegg (2010, p. 6) further explains: "The underlying focus of these institutional theorists…was the role of shared meanings, institutional processes …and institutional conformity. What is wrong with these views [that do not pay adequate attention to coercive and normative mechanisms]? Well the obvious: They downplay struggle and conflict; moreover, given that the genealogy of institutional theory has a rhizomatous relation with Weber…and Selznick (1949), the neglect of the state in contemporary accounts is a strange absence."

Clegg (2010) also offers an illustrative Australian case of an institutional change and corruption reform study that he approached as a participative observer where the normative issues were addressed as ends in themselves and as explanatory mechanisms. Clegg (2010, p. 7) explains: "The institutional field was highly contested on the streets: I was there and was a participant. Large-scale aggressive policing of what were declared illegal demonstrations and protest marches occurred…. The state's economic development increasingly was largely based on planning issues that the party controlled in the interests of crony capitalism sponsoring administratively favored projects in real estate." For an institutional theorist such as Clegg, it is important to integrate the study of institutional and normative mechanisms both because they can further explain and build theory; and, because suppression of free speech and assembly and "crony capitalism" are important institutional social problems that need to be considered as ends in themselves as well as explanatory mechanisms.

Conclusion

Weberian and pre-Weberian joining of organizational ethics and institutional theories were considered. For much of intellectual history, such joining was common. Since the beginning of the twentieth century, there has been a separation of the study of normative ethics from institutional theories. In the late nineteenth and early twentieth century, in development of the scientific approach to the study of social phenomena, the separation was often viewed as temporary. Social science writers such as Marshall and Weber would be quite explicit and transparent about their ethical and social motivations for their social science work as well as their discussions of ethical and social implications of their social science studies. The same was true for the classical, critical institutional scholars such as Veblen, Selznick. What began as a temporary separation in the interest of the development of a scientific approach to social studies has become, for the most part, a long-term and perhaps a permanent separation.

However, there are both modern examples and important theoretical and practical benefits to re-joining the study of organizational ethics and institutional theory. The key benefits to organizational ethics are that institutional theory can help explain the causes of ethical problems that lie within the more macro institutional levels, as well as help guide intervention methods that can both navigate within institutions, suggest approaches for ethical improvement of institutions, that might in turn improve individual and organizational level ethical behaviors.

Key benefits of re-joining for institutional theory are that these theoretical approaches can be extended and deepened by releasing and exploring assumptions made in the interests of temporary methodological necessity, that can widen the range of the theories' scope and application, as well as realize the hope of temporary separation in the interest of making the social science theory more powerful and applicable to the solution of ethical and social problems as ends in themselves. In addition, re-joining can improve the transparency of the motivations for studying particular institutional and ethical issues and problems beyond solely abstract theory building, theory testing, and convenience data sampling. There are great opportunities for re-joining of ethics and institutional theory.

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