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„Decision criteria in ethical dilemma situations: Empirical examples from Austrian managers“

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Abstract:

This paper is the result of an empirical research project analysing the decision behaviour of Austrian managers in ethical dilemma situations. While neoclassical economic theory would suggest a pure economic rational basis for management decisions, the empirical study conducted by the authors put other concepts to a test, thereby analysing their importance for managerial decision making: specific notions of fairness, reciprocal altruism, and commitment. After reviewing some of the theoretical literature dealing with such notions, the paper shows the results of an online survey working with scenarios depicting ethical dilemma situations. By judging such scenarios the respondents showed their preference for the named concepts, though with different degrees of confirmation.

The results (with all limitations of an online survey in mind) support the theoretical work on the named concepts: Fairness elements (including Rawlsian principles of justice and an understanding of fairness as conceived by a reference transaction) play a major part in management decisions in ethical dilemma situations. Also, commitment as a behaviour that sticks to rules even if personal welfare is negatively touched, and reciprocal altruism as a cooperative behaviour that expects a reciprocal beneficial action from other persons have been concepts used by Austrian managers when analysing ethical dilemmas. The article also tries to put the results into a comparative perspective by taking into account other studies on ethical decision factors conducted with e.g. medical doctors or journalists, and by discussing intercultural implications of business ethics.

1. Introduction

The reintegration of ethical concepts into business and economic theory is a field of interest for many researchers in the interdisciplinary field of business ethics. Theoretical literature on this topic is growing exponentially, as are new insights into how such an integration can be managed, culminating maybe in the award of the Nobel prize in economics to Amartya Sen and his capability approach to economic ethics (see Sen, 1987, 1992, 1999, 2003). One major question in business ethics has been whether managers actually decide according to pure economic rational motives (which most traditional economic models would imply) or whether there are additional concepts to be taken into account, such as principles of fairness, reciprocity or commitment (as behavioural economics and experimental economics would suggest). To tackle this question, more empirical research seems necessary to complement the vast theoretical insights of business ethics.

This paper argues that there are some concepts that managers use intentionally or subconsciously when dealing with moral dilemma situations. Such concepts would be specific notions of fairness (including Rawlsian principles of justice), reciprocal altruism (to depict altruistic behaviour as long as a reciprocal beneficial action can be expected), and commitment (to include non utility maximizing goals into one's goal set by e.g. acting according to rules). In addition there seems to be a unified decision basis for ethical decisions in management, which leads to the specification of a characteristic "type" of decision maker: the Rawls/Kant type, meaning that Rawlsian and Kantian decision principles, such as fairness deliberations and deontological criteria (like the categorical imperative), play a major role when managers are confronted with ethical dilemmas. Accordingly, if these arguments be correct, the pure economic theory of rationality would not be an adequate framework for explaining managerial decision processes.

To prove our points, this paper describes parts of an empirical study conducted for the Jubilee Fund of the Austrian Central Bank during 2009ⁱ. We use statistical material from an online survey of Austrian managers, who were confronted with dilemma situations and had to decide on the appropriateness of different reactions to the used scenarios. This technique is more and more used in empirical surveys (see e.g. Hauser, 2006), in order to avoid socially desired answers and bring abstract concepts to life in everyday management situations. Even though the study was of an exploratory nature, we can show the actual interconnection of some business ethics concepts and managerial decision processes, a result which may pave the way for future operationalization of business ethics and better inclusion into management practice.

The paper proceeds as follows: Section 2 gives the theoretical background of the survey items and centres on the question of alternative decision bases (compared to economic rationality) as developed in the literature. Section 3 describes the survey design; section 4 shows the major results of the relevant scenarios and their connection to the concepts derived from literature. In section 4 we also provide a comparative perspective of some results by including findings from similar studies regarding other professions. In section 5 we give a résumé and suggest future improvements of the used method. Implications for international and intercultural business ethics are suggested.

2. Theoretical Concepts

This section gives a short overview about some major ethical concepts discussed in the business ethics literature. Selection of these concepts is based on a literature survey which was part of the named project for the Jubilee Fund of the Austrian Central Bank. Further confirmation that these concepts play an important role for Austrian managers was derived from a qualitative pre-study (expert interviews; see also section 3 on the survey design). Due to these findingsⁱⁱ within the project, the authors chose to develop the scenario items around these concepts (see section 4).

2.1 Economic Rationality in Management Decisions

Modern decision theory and microeconomics (and therefore a major part of business administration and management theories) are based on the concept of economic rationality and homo oeconomicus behaviour. The model implies that persons facing scarcity situations will behave according to strict predictions by gathering their goals in a consistent ranking and use the best means (“instruments” as is implicit in the term “instrumental rationality”) efficiently to reach their goals. There are no psychological or sociological components to be found in that approach (e.g. Sturn 1997, p. 71), because the only task of it is to compare the use of means with the degree of goal reaching and state possible inefficiencies. The economist and methodologist Marc Blaug defines this approach as used by economists: “For the economist, however, rationality means choosing in accordance with a preference ordering that is complete and transitive, subject to perfect and costlessly acquired information; where there

is uncertainty about future outcomes, rationality means maximizing expected utility, that is, the utility of an outcome multiplied by the probability of its occurrence” (Blaug 1992, p. 229).

The methodological basis for such an approach is individualism and subjectivismⁱⁱⁱ, and rational choice theory (e.g. Coleman and Fararo, 1992; Nida-Rümelin, 1994) has developed very deep insights into specific applications of it, e.g. by explaining individual behaviour as being determined by institutional frameworks (e.g. Becker, 1996; Frey, 1990, 1997). Central tenets of these theories are that individuals maximize a utility or welfare function, that markets exist for the coordination of human actions, and that preferences are stable between individuals and over time.^{iv} This is not the place to discuss the history or success of these models, as we want to concentrate on alternative decision models based on different assumptions.

Many philosophers and economists have criticized rational choice approaches in economic settings, especially when it comes to ethical problems and dilemma situations. Amartya Sen’s critique for instance is based on the following: Utilitarianism as possible basis for rational choice approaches gives too much importance to the “well-being” aspect of a person, lacking an analysis of “agency” and freedom aspects of the same person. We can build goals and values without drawing direct utility from that; in addition we cannot abstract from the social situation an individual finds itself (a beggar might be satisfied with less addition to happiness without us being able to assign an equally small value to the loss of well being by him or her) (Sen 1987, p. 45f.). Sen believes that freedom is a deontological category (ibid, p. 61) itself and it is important for us to have alternatives of action and to be able to choose between them (Sen 1992, p. 49). This ability he calls “capability” – hence his approach is often named “capability approach”.

What we take as important input from Sen’s approach is the fact that economic rationality and its underlying utilitarianism cannot be the sole decision basis and questions of ethics cannot be judged by using revealed preferences.^v We wanted to find out if managers in actual dilemma situations use other decision bases. Theoretical and empirical research has gathered rich material for such alternatives. The next sub sections describe four different concepts which are discussed a lot in literature and which we tried to translate into scenarios that managerial respondents can judge (and by judging also make transparent underlying decision criteria).

2.2 Rawlsian and Kantian Decision Criteria

Hauser (2006) argues that humans have a moral organ with which actions and decisions can be evaluated. We subconsciously analyse a situation regarding causes that brought about the situation and consequences our actions have; only afterwards emotions come into play. He developed scenarios incorporating dilemma situations and found out that some principles of ethical judgement are universally shared. There are three ideal types of ethical judgements: Individuals making moral judgements by using reasoning with certain principles are called “Kantian” creatures (ibid, p. 14f.). These persons define actions as morally permissible (or not permissible) on the basis of universal abstract principles and rules (like the categorical imperative of Kant). Emotions do not enter this decision process, neither do consequences of actions: lying to save a life may bring about a positive total utility but that is out of the question for the Kantian.

Ideal types on the other hand who have certain personal characteristics and a native moral sense which motivates them towards specific actions are called “Humean” creatures (ibid, p. 24f.). An action causes emotions of the person touched by the action and triggers a judgement of the “impartial spectator”. If an action is perceived as morally positive by the target person, the spectator feels sympathy for the action taker. He then judges the action as ethically correct. Only emotions can trigger moral judgements, reasoning can only help with causal relationships between means and ends.

The third ideal type according to Hauser (ibid, p. 43ff.) is the “Rawlsian” creature. Moral judgements are made by using a universal moral grammar working subconsciously and quickly when seeing an ethical dilemma. This grammar relies on universally shared principles which are slightly adapted according to cultural differences. E.g. it is a shared value that it is morally forbidden to torture children. While child murder is a barbaric act in Western civilizations, it is sometimes morally allowed for Inuits to kill their children (because of limited resources). There are general rules and cultural exceptions to the rule. While the Humean creature would not approve such an action because of the negative emotion it triggers, the Rawlsian creature analyses causes and consequences leading to a moral judgement.

The different “trolley” and “lifeboat” scenarios Hauser used to discern the working principles in our moral judgements showed a prominent role for the Rawlsian creature. Two major principles came to light in the respondents’ analyses: Prohibition of intentional battery, which forbids direct physical contact causing harm to other persons and the principle of double effect, meaning that usually forbidden actions may be permitted if the harm they cause is not intended and the foreseen and intended good consequences of the action outweigh the foreseen bad consequences.

So the test persons were not purely deontological (killing is always bad), nor purely utilitarian (maximizing the total good is right), but they intuitively analysed causes and consequences of an action, judged the individual’s intentions and developed a judgement for which afterwards a coherent explanation for the most part was not given. This “Rawlsian” kind of reasoning also played a major part in our survey of management decisions (see section 4).

2.3 Fairness and “Reference Transactions”

Experimental economics has developed many insights on how fairness influences our behaviour. Game theoretical analyses like the “ultimatum game” (e.g. Thaler 1994a, p. 23ff.) and “trust game” (e.g. Fehr/Schmidt 2003, p. 214) show that people do not act rationally in the sense of maximizing their (money) utility and expecting the same of the other players. Instead they show elements of fairness and trust others to play fairly too. Social notions of fairness have been researched by Kahneman et al. (1994a, p. 201ff.), introducing the concept of a reference transaction. This concept is a case of e.g. a price or wage that is consistent with a positive profit for a firm and still perceived as fair by all actors. Customers or workers have a stake in the conditions of a reference transaction while the firm has a stake in the reference profit (“dual entitlement”). Kahneman et al. give the following example of a telephone survey:

Question A: “A small copy shop has an employee who has been working there for 6 months and earns 9\$/hour. The profit situation is satisfying, but another firm in the region has closed its doors and unemployment has risen. Other small shops now hire good employees for 7\$/hour, doing the same work as the employee in the copy shop. The employer reduces her wage to 7\$/hour. Is this absolutely fair/acceptable/unfair/ very unfair?”

17% of respondents (n=98) found this to be acceptable (summarizing the first two categories), 83% unfair (last two categories).

Question B: “A small copy shop has an employee (like in question A). She leaves the firm and the employer now pays 7\$/hour to her substitute. Is this absolutely fair/acceptable/unfair/very unfair?”

Now 73% of respondents found this to be acceptable and 27% unfair.

The current wage of an employee obviously serves as a reference for the fairness of future changes of this wage, but not so for the wage of a substitute employee. The latter has no entitlement to the wage of the former employee (see *ibid*, p. 202). An action/decision/situation can have reference status for two reasons: firstly because it is felt to be fair, secondly because it is felt to be normal under the current moral codes of the society. Also, according to Kahneman et al (1994b, p. 208), actors in such transactions judge scenarios with three elements in mind: They care about being treated fairly and treat others fairly; they are ready to avoid doing business with unfair firms, even if that comes at a cost; they have systematic and implicit rules for judging the fairness of entrepreneurial actions.^{vi} In one scenario (see section 4), a more complicated reference transaction is judged by managers of our survey.

2.4 Reciprocal Altruism

Reciprocity can be defined as reciprocal altruism if a person does something for another person because she or he expects something from that person. In the case of strong reciprocity (see Hauser 2006, p. 81f.) persons even have a disposition to cooperate and sanction those who act as free riders, even if such sanctions are costly. Both forms of reciprocity can be used to build reputation and secure long term cooperation.

Lakoff (1996, p. 47) uses the metaphor of a balanced moral account to define reciprocity. A morally sound action is one that intends to help (and cause a “profit”), an immoral action is one that intends to harm (cause a “loss”). If we did something good for another person we expect her or him to pay back that debt. This implies two principles: moral actions mean to give something of positive value; it is a moral imperative to pay back one’s debts. In the case of altruism^{vii} one does something good for somebody without expecting payback, e.g. when a person might wish to build up moral credit. The difficult question is what one can expect as a

reciprocal action, and when such an expectation might itself be immoral. Our scenario “Elisabeth” (see section 4) will show a possible answer.

2.5 Commitment

The concept of commitment was primarily brought into the economics field by Amartya Sen. He criticizes Revealed Preference Theory for not being able to include “sympathy” and “commitment”. In the case of sympathy, caring for other persons’ goals would directly influence one’s own welfare; in the case of commitment one does something for other persons without being made off worse when doing nothing. “While sympathy relates similar things to each other – namely, welfares of different persons – commitment relates choice to anticipated levels of welfare” (Sen 1977, p. 95). A person can choose an alternative with less addition of utility for herself, which need not be caused by an erroneous anticipation of foreseen consequences. In this sense, sympathy could be included in a rational choice framework (as it raises my utility to conduct a non-egoistic action), but commitment cannot (as it is a counter-preferential action).

Sen gives an example (ibid, p. 97): Two boys find two apples of different size. Boy A says to boy B: “You choose”, and B takes the bigger apple. A now argues that this is unfair. “Why”, says B, “which one would you have chosen?”. “The smaller one, of course”, says A. B answers triumphantly: “Why do you bother then? That was exactly what you got now!”. Boy A would have lost less by B’s choice if his hypothetical choice of the smaller apple had been based on sympathy and not commitment.

As traditional economic theory tries to depict the wishes of individuals in one sole preference ordering, consistent choice behaviour within this ordering seems to be enough for being rational. But how can a sense of commitment for a specific group (family, friends, social class) or rule (to choose the smaller apple) be modelled when this means departing from maximizing personal utility? How can moral judgements enter a single preference structure, even more so as one preference structure could be more ethical than another but less ethical than a third one. Sen (ibid, p. 103ff.) suggests orderings over preference orderings (“meta-preferences”), a possibility we will not discuss here. We developed a commitment scenario (“Paul”) in which commitment to a rule seems to outweigh personal utility in the form of bonus payments (and even wage cuts) for a manager.

3. Survey Design

The survey included executives and middle managers (project managers) in Austrian companies and used an online questionnaire with closed questions and different scenarios. We asked about relevant attitudes towards business ethics topics and business ethics initiatives. The scenarios were created to discern underlying ethical values and decision bases of managers when confronted with ethical dilemma situations. Scenario technique (see Hauser 2006 and <http://moral.wjh.harvard.edu/index.html>) can help avoiding socially desired answers by having managers judge the behaviour of third persons. All questions and scenarios were derived after a literature survey and a qualitative pre study with expert interviews. In this section only those questions and scenarios are described, which may give insights on the concepts discussed above (section 2).

The first version of the questionnaire was submitted to a pre-test with 20 persons and modified according to feedbacks. It took persons 15-20 minutes to fill out the questionnaire. Appr. 4.000 invitations to Austrian managers were sent out and 415 questionnaires could be used for statistical analyses. We analysed data with SPSS 11.5 for Windows. According to the respective question and check of prerequisites the following statistical methods were used:

For an analysis of mean value comparisons (with regard to scale levels and check of normal distribution and „homogeneity“ of data, which were not the case) we used non-parametric tests: The Mann/Withney U-test to compare two independent samples or the Kruskal/Wallis H-test for more than two independent samples. To check correlations between single variables we used Spearman rank order correlations. As support method we took Kolmogorov-Smirnov tests to check normal distribution. The Levene test to check „homogeneity“ of variances was not necessary due to the non-existence of normal distribution. The level of significance was set at 0,05. As a method of discerning structure in data we used a hierarchical cluster analysis with the aim of finding „types“ of managers differentiated according to attitudes and decisions.

4. Empirical Results

4.1 The Rawls/Kant Decision type

In order to filter general decision types in management settings we asked some questions dealing with the informational basis of managerial decisions. According to Sen and other critical economists, decisions of individuals can only be explained with economic rationality, and therefore without a more detailed analysis of the individual's goals or rules, if these decisions are grounded in utility maximization. Sen calls this the restricted informational basis of utilitarianism. The first questions therefore to deal with this problem are aimed towards the understanding Austrian managers have of „rational actions“. This includes fairness and Rawlsian intuitive decision making, utility maximization, justifications of actions in private or organizational settings, actions according to the Kantian categorical imperative, and Humean empathy as decision basis; the corresponding managerial decision types in our typology (which is partly taken from Hauser 2006) are:

- Rawlsian, a person who uses fairness criteria in her or his decision making and relies on intuitive accounting for causes and consequences
- Utilitarian, a person who sees the maximization of own good or personal professional utility as rational
- Relativist (private), a person who sees justifications of actions before kinship or friends and their expectations as rational
- Relativist (organizational), a person who sees justifications of actions before the organization she or he works for and its expectations as rational
- Kantian, a person who wants to treat others as they treat her or him and acts according to a felt duty as an executive
- Humean, a person who uses empathy in her or his management decisions and acts according to personal feelings regarding right or wrong.

Our task was to assign each answer a type of managerial decision, e.g.: “If I act rationally as an executive, this means to me to maximize my utility” would assign a Utilitarian decision type to this person. To get a first impression on decision criteria the respondents use in their actions we collected top box answers (total agreement and agreement to the items) to this question. Rational actions for the respondent as a manager mean to include fairness considerations and the categorical imperative (to treat others as oneself wants to be treated). Rawlsian and Kantian criteria are in the forefront of the manager's actions. Other justification models, like the organizational or private relativist (as we call this type) are in the midfield of

answers; empathy and utility maximization (the Hume type and the Utilitarian, according to Hauser's (2006) typology) do not play a central role in rational decision making as a manager.

A similar picture is depicted when analysing another question on decisions in the usual management setting; an example: "I take my decisions in everyday management according to my felt duty as an executive" would mean that Kantian thinking has a certain role to play here. Top box answers center around experience and intuition (Rawlsian elements according to Hauser 2006), feelings about right and wrong (Humean criteria), and the felt duty of an executive (Kantian element). In contrast to the first question, personal feelings regarding the rightness of an action play a bigger role. If we construct the average value (each pair's mean value) of the two questions, the Rawls type (51,3%, n=415) and the Kant type (44,2%, n=415) are the most important decision types here.

To prove this result a hierarchical cluster analysis including the named questions was conducted, showing one cluster. It seems Austrian managers decide in a mixed manner, integrating Rawlsian and Kantian elements. 385 Cases (n=415) were submitted to the hierarchical cluster analysis. The cluster analysis produces a dendogram showing the proximity of the answers. The dendogram doesn't show a split, so we can say that Austrian managers make their decisions having Kant and Rawls decision criteria in mind (minding of course the very general type of question asking such criteria in our questionnaire).

The results of the first questions and the cluster analysis show that neither utilitarian criteria of utility maximization nor expectations of the private or professional environment seem to influence ethical decision making processes of managers very strongly. Rather, some elements of John Rawls' (1988, 2006) theory with its focus on fairness, experience, and intuition have a big impact on such processes, followed by Kantian elements of duty fulfilling and categorical imperatives. Of course, at this stage of the survey, we surely have social desirability as a problem here; this was improved upon by using scenario questions for all other topics of managerial decision bases.

Let us compare these results with a survey of another professional group in Austria, namely occupational physicians (see Litschka 2009, p. 52ff). This survey was conducted in 2008 and asked respondents to depict conflicts in their work as doctors in business enterprises. Besides personal conflicts and strategic as well as communication and framework order problems the

questionnaire asked about decision bases of occupational physicians when moral questions are concerned. Here, 82,6% (n=149) of all respondents put their personal conscience at the fore of such criteria, followed by duties they have to follow (72,5%, n=149). Ranked No. 5 and 6 in this category was “virtues” and “intuition” (above 40% consent, n=149). The maximization of utility (“what is useful for most persons, including me”) does not seem to play such a big role: only 14,1% (n=149) of occupational physicians use this concept for moral decision making.

In another study, Karmasin (2005, p. 131ff.) surveyed decision bases of Austrian journalists regarding the intermediate position of this profession between economic and journalistic/public interests of media enterprises. When asked “what is good and what is bad?”, they put their own conscience on the first place in a ranking of decision factors (49%, n=122). Their own reason (a Kantian aspect) comes second, whereas Utilitarian criteria (“to watch the effects of an action; is it useful or harmful?”) lack behind (only 6%, n=122, see this as the most important decision base).

It is interesting to see that in another context (though with slightly different questions), very similar results hold for other professions. Occupational physicians in Austria seem to also take Rawlsian criteria of intuitive decision making and Kantian elements of “duty” and “conscience” as central bases for their ethical decisions; similarly Austrian journalists stick to their conscience and reason when ethical dilemmas have to be solved. Utilitarian reasoning, religion (the Ten Commandments), discursive considerations, or pure emotional thinking on the other hand were not found to be very important decision factors.

4.2 Fairness

The first theoretical concept (as an alternative to economic rational motives) we wanted to test in our survey was fairness. While there are too many discussions on fairness in the literature to mention, we start by using the Kahneman notion of a “reference transaction” (see above section 3). We conceptualized this specific notion of fairness in our scenario “Erwin”.

We wanted to know how morally correct a situation would be judged in which a greengrocer raises his prices as soon as a government subsidy goes to the persons in need in his region. On the one hand he charges the (probably equilibrium-) price of all his subsidiaries, on the other

hand he places the burden of helping the ones in need to society as a whole. The question is if he is allowed to raise the reference price or whether this is judged unethical behaviour. The scenario text runs as follows:

“The greengrocer Erwin runs a few subsidiaries in his region, one of them being placed in a district of high poverty. Up till now prices in this specific subsidiary have been slightly lower than in the other subsidiaries of the dealer. Since the day persons in need in this district have been receiving a government subsidy in the form of food vouchers (a certain amount of Euros) to be spent in the groceries of the district, Erwin has been raising the prices in the named subsidiary to the level of his other subsidiaries.

How moral is Erwin’s decision?”

(very moral(1)/ rather moral(2)/ morally neutral(3)/ rather immoral(4)/ very immoral(5)/ no answer)

The tendency of answers in this scenario is to judge Erwin’s action as morally neutral (41,4%) to rather immoral (37,3%); (M=3.46; SD= .849). Almost 10% of respondents find his decision very immoral. This is confirmation of the economic psychological thesis that reference transactions are orientation points of fairness to which enterprises have to stick or at least need strong arguments to change that situation. Even though Erwin does not raise his prices arbitrarily and not above the market price, and even though the persons in need are not worse off than before, he places an additional burden of the size of the subsidy on society’s shoulders. In addition (at least that’s a possible interpretation of the scenario) he takes away the relative advantage, represented by the subsidy, of the ones in need. Obviously, this kind of economic rationale in place here is not sufficient for managers to judge the situation as fair.

Answering the question of which part of all other dealers would decide like Erwin, there seems to be a rather distrustful assessment given by respondents (M=3.79; SD= 1.012); 42% believe that 61-80% of all other dealers would take Erwin’s decision, one that basically is judged rather immoral or morally neutral. If we correlate scenario “Erwin” (“How moral is Erwin’s decision”; M=3.46; SD= .849) with a question on ethical dilemma situations (see below), we see a consistent negative relation. The less such situations are perceived as ethical problems, the more ethical this scenario is judged. We had respondents evaluate the following (ethically problematic) dilemma situations:

- To hide information from customers in order to gain an advantage

- To reduce the number of employees in financially hard times
- To reduce the number of employees in financially good times
- To outsource in low-wage countries, even though the company got Austrian government subsidies
- To pay bonuses to executives whose highest priority is short term profit maximization
- To represent other values in the company than in private life

A correlation analysis of these items with the above scenario shows:

	M	SD	Erwin
Erwin	3.46	0.849	
1. Customer Information	2.07	1.091	-.155**
2. Employee reduction (crisis)	3.11	1.091	-.234**
3. Employee reduction (good times)	1.90	1,060	-.193**
4. Production outsourcing	1.69	0.989	-.172**
5. Bonus payments	1.63	0.970	-.262**
6. Other values in company	2.02	1.066	-.212**

*p<.05. **p<.01.

Table 1: Correlation scenario “Erwin” and specific moral dilemma situations

Another relationship was found when correlating scenario “Erwin” with questions on fairness (see below). The items for this question are partly taken from Lakoff’s (1996) linguistic analysis of different fairness patterns, while two items representing the two Rawlsian criteria of fairness (equal liberties and difference principle) were added. All items were changed according to what the qualitative pre-study had shown to be understandable concepts for managers not trained in business ethics terms. The text ran as follows:

„How ‚fair‘ do you judge the following statements? It is fair if...“

- GDP is distributed equally to all inhabitants
- Professional chances in society are distributed equally
- Distribution of GDP is made by rules which are fixed beforehand
- Persons in need get more of GDP
- Each inhabitant gets the share of GDP which the law states she or he should get

- Persons who work more get a larger share of GDP
- Each person has the same responsibility for the production of GDP
- Persons who can objectively perform worse (e.g. because of illness) have a smaller responsibility for the production of GDP
- Inequalities in society are allowed as long as they help disadvantaged people
- Each person has the same right to the biggest possible freedoms, as long as these freedoms do not restrict the freedoms of other people
- Power is distributed equally in society
- Every distribution reached by consented contracts is fair

Before conducting a correlation analysis we can have a look at the basic evaluation of these fairness concepts: The result was that the most important fairness criteria are the biggest possible distribution of basic freedoms and the equity of chances at the starting points of a life (a career). The “scalar distribution of responsibility” (who is objectively only able to perform worse, e.g. due to illness, has less responsibility for the production of GDP) was also chosen very often by executives. All of this shows a rather egalitarian (and certainly Rawlsian) attitude of managers, a slight surprise in the face of the modern socialization process of executives in the market economy. If asked for “equity” in a rather direct way, e.g. in the form of “equity of distribution” (GDP is distributed equally in society), consent of the respondents is reduced. Obviously, we need an additional criterion like freedom or equity of chance, in order to accept egalitarian concepts of fairness; of course most theories of fairness provide such criteria. As soon as such criteria are there, managers choose Rawlsian and egalitarian concepts, as well as Sen’s possibilities to choose (“capabilities”), while contracts, rights, and rules do not play such a big role with questions of fairness.

If we now correlate those items from above which concern the GDP of a country and its distribution with our scenario question, we can see an interesting result.

Persons judging Erwin’s behaviour as rather immoral see the following concepts as rather fair: if the GDP is equally distributed and if this distribution is made according to rules fixed beforehand. This is intuitively clear, as Erwin compensates for part of the public “equal distribution”, brought about by government subsidies, by his raising the prices, respectively does not keep to the “rule” of the reference transaction (the lower price). Of course these respondents want persons in need to get more of GDP, which is undermined by Erwin’s action.

	M	SD	Erwin
Erwin	3.46	0.849	
1. GNP equal distribution	3.92	1.050	-.111*
2. GNP according to fixed rules	3.18	1.250	-.129**
3. Persons in need get more	2.70	1.077	-.122*
4. GDP according to law	2.96	1.173	-.068
5. Work more – more GDP	2.16	.962	.128**
6. Same responsibility for GDP	3.18	1.231	-.081
7. Illness – less responsibility	2.10	0.969	-.120*

*p<.05. **p<.01.

Table 2: Correlation scenario “Erwin” and conceptions of fairness

4.3 Reciprocal Altruism

To get an impression of how managers use a concept of reciprocal altruism (to depict altruistic behaviour in expectation of a reciprocal favour by somebody else), we developed a scenario (“Betty”) with the following features:

“Betty is an executive in a major oil company. This enterprise is successfully doing business with dictatorship countries. Recently, there has been increasing public pressure to stop such business. There are some human rights organizations (NGOs) responsible for this pressure. Betty negotiates with the most important NGOs and offers to change the relevant company policy, but only if these NGOs start to comment positively in public on the company and Betty.

How moral is Betty’s decision?”

(very moral(1)/ rather moral(2)/ morally neutral(3)/ rather immoral(4)/ very immoral (5)/ no answer)

Betty changes her company policy in favour of certain important stakeholders (here: NGOs) only if they commit to saying solely positive things about her and her company. Betty expects a return service (“quid pro quo”) which advances her reputation for an obviously ethically correct attitude. This attitude of expectation can be described as reciprocity and her will to conduct a morally sound action under this condition as reciprocal altruism.

The tendency of respondents here is to categorize this action as rather immoral (40,5%, n=415). 17,8% find this decision very immoral. Obviously the aim of getting a return service for an action that is ethically appropriate from the beginning (i.e. stopping business with dictators) is rather an unethical gesture. Even though ethical theory has accepted reciprocal altruism as one form of fair behaviour, it seems to be important how ethically self evident the basic action is (here: Betty's offer to ground her business policy on ethical grounds) – if there is the belief that such an action is taken for granted, a reciprocal action is less expectable than if Betty had made a preparatory effort with an ethical action less taken for granted.

Three quarters of respondents believe that 41 to 100% of other executives would decide like Betty. They seem to take a rather immoral form of reciprocal altruism to be an important decision base for managers.

A correlation analysis with our list of fairness notions (see above) showed that managers who judged the Betty scenario as moral (M= 3.62; SD= .982) did not judge one of Rawls' fairness criteria, namely the right to equal and biggest possible basic freedoms, to be important (M= 1.41; SD= .706; low negative correlation $r(399)=-.123$, $p=.014$). Reciprocal altruism and Rawlsian elements of justice are not decision factors used at the same time, at least in our sample.

4.4 Commitment

A behaviour of commitment is depicted in the next scenario "Paul". It tries to explore whether a manager is willing to stand up for somebody else (whom he maybe does not know personally), in this case not to lay off some employees even though the board wants him to do so, threatening with pay cuts and loss of bonus payments. What we asked here is commitment for a specific rule, even though personal utility is touched negatively and the improvement of well-being of the others does not influence the own utility function (in lack of personal relationships within a big company). That is exactly what Sen would call pure commitment (see above). The text ran as follows:

"Paul is in the executive board of a major steel company. In the board meeting to come all executive officers must propose savings measures regarding their departments. Should the

combined measures be able to save a certain sum of money, the chief executive director is willing to secure the promised bonus payments to all directors this year. If the sum is not reached, all directors will have to face a severe pay cut. Paul knows that the other colleagues will offer to lay off 10 percent of their employees. If he himself does the same, the overall sum the CEO wants to have saved is reached. If he does not do this, the sum is not reached and all directors (including Paul) will have to face the pay cuts. In the meeting, Paul proposes not to lay off any employees and the savings goal is missed.

How moral is Paul’s decision?

(very moral(1)/ rather moral(2)/ morally neutral(3)/ rather immoral(4)/ very immoral(5)/ no answer)

More than half of the respondents judge Paul’s decision to be moral, a quarter say it is rather moral. Consent to a behaviour that damages the own utility function but shows commitment for a group of persons or a rule which helps them is high among the respondent executives.

Returning to some frequent dilemma situations in everyday management (see above), we can again look at possible correlations. One dilemma is the payment of bonuses to executives who deem short term profit maximization as their highest goal. Interestingly (as shown by a correlation analysis, see table 3), managers who judge Paul’s behaviour as rather immoral do not find bonus payments of this kind to be morally problematic. I.e. persons who cannot identify themselves with Paul’s behaviour and even judge it to be unethical do not have problems in general with bonus payments under questionable criteria. This would confirm that further public discussions about management payment is necessary, as sometimes the incentive for executives to not comply with socially expected behaviour is too big. In addition, all other dilemma situations correlate positively with scenario “Paul”, i.e. managers understanding dilemma situations to be ethically problematic also accept Paul’s decision to be ethically sound.

	M	SD	Erwin
How moral is Paul’s decision?	1.56	0.78	
1. Customer Information	2.07	1.091	.159**
2. Employee reduction (crisis)	3.11	1.091	.258**
3. Employee reduction (good times)	1.90	1,060	.365**

4. Production outsourcing	1.69	0.989	.236**
5. Bonus payments	1.63	0.970	.284**
6. Other values in company	2.02	1.066	.198**

*p<.05. **p<.01.

Table 3: Correlation scenario “Paul” and moral dilemma situations

Again, expectations towards other managers’ behaviour are more than pessimistic. More than 60% believe that only 0-20% of other executives would take the same decision as Paul; that at least 21-40% of the others would show such a behaviour of commitment is believed by only 24% of respondents. That could be interpreted as follows: If somebody takes the place of Paul and judges this behaviour from the point of view of an impartial spectator, one does not believe in the ability of empathy of other managers. Either our respondents believe that others do not have the same moral sense (and therefore do not understand why they should act like Paul), or they doubt the feasibility of the “right thing” in management practice. While the former would be a problem of management ethics (socialization, role models, education, etc.), the latter is a structural problem of incentive systems, competitive pressure, decision hierarchies, etc. Both topics were also mentioned in the qualitative pre-study of this research project and stress the importance of analysing all levels of business ethics where places to install ethics measures can be found.

5. Résumé: Business Ethical Alternatives to Economic Rationality within Management Decisions

There have been of course many elaborate criticisms of the belief that people decide on the basis of economic rational deliberations. Chapter 2 gave a rough overview. One of the most compelling alternative models was provided by Amartya Sen, stating that rational choice and revealed preference theory do not adequately picture the true decision behaviour of persons. This is due to the following thesis: On the one side, there is informational content not expressed by the “choice” of a person, but influencing personal welfare; on the other side, welfare makes up for only a part of those deliberations which enter the personal choice behaviour.

From the many conclusions which could follow such an insight, we chose the following alternative concepts and tested them via specific scenario questions: certain Rawlsian elements of fairness, which (in our survey) combine with Kantian elements of the categorical

imperative; fairness as conceived by a reference transaction; commitment as a behaviour that sticks to rules even if personal welfare is negatively touched; reciprocal altruism as a cooperative behaviour that expects a reciprocal beneficial action from other persons. These concepts have been confirmed in our study with different degrees of consent by managers. In the following the central points of the results are repeated with a view to intercultural implications for business ethics as well as possible (and necessary) future research.

The Rawlsian type with Kantian elements: Our sample of managers does not consist of utilitarians; they neither deem it rational to only maximize their own utility, nor do they want to make managerial decisions according to personal utility alone. They rather include fairness considerations into their decisions and build on their experience and intuition when making moral decisions. These are Rawlsian elements of ethical decision processes beyond utility or estimation of consequences (consequentialism as part of utilitarianism). Furthermore, the categorical imperative (in the form of “treating others as I want to be treated by them”) plays a possibly bigger role in decision processes as one may think, as well as the “felt duty of an executive”; these are the Kantian parts of managerial decisions as far as our online survey could define them. This result is also confirmed by two additional methodological steps: our qualitative pre-study (expert interviews, not described in this paper), where managers and researchers stated exactly those principles, and a cluster analysis which filtered the Rawls/Kant type as only statistically significant type according to our proposed typology. When we describe the results of our fairness scenario (see below), Rawlsian fairness is again a central anchor for decisions in dilemma situations. Future ethics research in business should give strong regard to Rawls’ theory of justice, also on a micro level of individual decisions.

Commitment: To care for a specific group of people or stick to a specific rule without drawing personal utility from it is the basic feature of commitment according to Sen. Consent to the decision of manager “Paul” (i.e. not laying off people to secure a bonus payment or even to just keep the level of one’s salary) was remarkable. Persons not agreeing with Paul also do not sense any ethical problems with e.g. bonus payments for short term measures of profit maximization or similar situations (as asked in the questionnaire). A problem for future research is the mixed result concerning what managers judge as ethical behaviour and what their colleagues do in reality according to respondents. As clearly as they give their consent to Paul’s behaviour, they doubt the ethical basis of other executives; those others would not decide as Paul does and choose the unethical alternative. This can have two reasons: one does

not believe in the ability of empathic behaviour of people in general, or one doubts the practical feasibility of such decisions under competitive pressure and similar structural problems. This could be a sign of a hard to overcome difference between management ethics (socialization, role expectation, education) and framework ethics (incentive systems like bonus payments, competition factors, hierarchies in companies, to name a few). Analysis of a scenario can only answer part of that question and future research projects must try to work out this difference in a more sophisticated manner.

Reciprocal altruism: This concept models a behaviour that is altruistic as long as a reciprocal beneficial action of another person can be expected. Scenario “Betty” describes such a situation, in which a manager undertakes a morally sound action (to change the company policy regarding doing business with dictatorships), if as a return service some stakeholders (here: the NGOs) praise her and her company in public. The majority of managers judge this behaviour as immoral. Seemingly it is not appropriate to expect a reciprocal action for a behaviour which other persons take for ethically granted. Even though reciprocal altruism is often described as “fair” behaviour in business ethics literature, this is not a valid argument when the basic action (the “preparatory action”) is ethical a priori. This again leaves room for further research, which develops more exact questions and scenarios for altruistic and reciprocal behaviour. And again, other managers (41-100% according to respondents) decide as Betty, showing a supposed frequent existence of reciprocal altruism, though this decision basis is not ethical in the view of our respondents.

Fairness: In addition to the fairness elements provided by a specific framework (Lakoff 1996), managers had to answer a scenario depicting Kahneman’s suggestion of seeing fairness in terms of a “reference transaction”. Scenario “Erwin” tries to model such a transaction without a clear or obvious moral content. Though one could concede to Erwin the right to raise his prices as soon as the ones in need in his region are subsidized by the government, he seems to hurt a reference transaction (the former prices of the goods in his store). His action takes away (through higher prices) the additional utility from the subsidy of the persons in need. Also, he places the burden of support to society (the government). The respondents judge this to be rather unfair (morally neutral to rather immoral). Unanimous dissent with Erwin’s decision was not to be expected, but the tendency of answers show the importance of an anchor of fairness as represented by the reference transaction, to which

managers should stick. The economic rationale behind this scenario is not sufficient when analysing the ethical content of such an action.

Implications for international and intercultural business ethics: It is a rather open question in philosophy whether empirical results such as those reported in this paper hold in different professional, cultural, and regional environments. We already stated in chapter 4 that, at least for some professions that have been analysed in other studies, we could find similar decision bases when ethical problems are concerned. Now we want to turn our attention to some intercultural aspects. The complicated debate on universalism versus relativism can be of special importance to managers when they have to decide on which values should guide their decisions: If values of their own company in the home country are valid in subsidiaries abroad, an ethnocentric attitude is at work; if those values are adapted to the culture of the guest country, cultural relativism is the paradigm (Kreikebaum et al., p. 112). Of course there are “in-between strategies” such as a multi-domestic or a transnational approach (Veser 2005, p. 39ff.). The more basic question of concern here is twofold: It is ethically problematic for managers to take their home values as universally valid (on which grounds?), but it may also be dangerous to simply accept different moral conceptions as a descriptive fact with normative validity, as this amounts to a naturalistic fallacy (de George 1993, p. 8ff.). In fact managers may need a well-founded standard for the meaning of “right” and “wrong” or “justice” when dealing with intercultural problems in their business. Donaldson (1989, p. 16f) shows how denying this need may lead into self contradiction, while Kreikebaum et al. (2001, p. 118f., p. 130ff.) plead for a discourse ethical conflict management to solve such intercultural problems in ethics. Karmasin (2005, p. 134) stresses the cultural dependency of empirical results in business ethics and demands a more formal (instead of material) approach to moral reasoning, a point also made by the other named authors. In a globalized economy, such concepts will get more importance and questions of implementation of these and other concepts have to be dealt with.

In the light of the theoretical and empirical findings in this paper, is there even a need to take intercultural differences into account? Is it not enough to just rely on some universal principles managers have in mind when ethical decisions are at stake? As the general approach of our survey has some elements in common with Hauser’s (2006) study on a basic moral understanding all humans share, it seems this question can be answered positively. Chapter 2.2 depicted some of his major arguments: that there are general principles at work

(like e.g. “prohibition of intentional battery”), which are adapted slightly for different cultures and societies; that Rawlsian decision structures guide our moral understanding; that these structures are universally valid, independent of culture, religion, gender etc. The implications for future research in (intercultural) economic and business ethics might be that formal general principles guide management decisions in practice, but that these principles are slightly adapted when different cultural backgrounds are involved.

Our general conclusion is that the direction of behavioural economics with its experiments and inclusion of psychological and ethical elements may pave the way of operationalizing the important concepts of business and economic ethics, which were partly developed as alternative to economic rationality. Much more work needs to go into methodology (questionnaires, scenarios, socially desired answers when ethics is concerned) and theoretical work on ethical concepts like commitment, fairness, and reciprocal altruism. If successful, these theoretical concepts can be proven to work in everyday management decisions, or at least it could be shown how such concepts can enter managerial work. Another small step towards integrating ethics, economics, and business administration would be possible.

ⁱ Austrian Central Bank Jubilee Fund; project nr. 12939; “Management and Ethics in Austrian Companies. Empirical Analysis of Ethical and Economic Decision Bases”.

ⁱⁱ The qualitative interviews are not part of this paper, the literature research only insofar as it touches the theoretical concepts used for the survey.

ⁱⁱⁱ The Austrian School of Economics has provided a lot of research dealing with these propositions, e.g. in Mises 1933 or Menger 1871, 1883.

^{iv} Other important contributions to the question of economic rationality from economists are Friedman’s „as if“-proposition (Friedman 1953), Robbins’ deductive theory building (Robbins 1935), Mises’ „Praxeology“ (Mises 1949), Hayek’s „use of knowledge in society“ (Hayek 1945), or Homann’s application of economic rationality to ethical problems (Homann/Meyer 2005).

^v As Sen states: „A person is given one preference ordering, and as and when the need arises this is supposed to reflect his interests, represent his welfare, summarize his idea of what should be done, and describe his actual choice and behavior. Can one preference ordering do all these things?“ (Sen 1977: 102).

^{vi} See above the description of Rawlsian creature in moral reasoning.

^{vii} Folbre and Goodin (2004: 3ff.) explain why pure altruism is notoriously difficult to model in economic terms. This is due to the „paradox of mutual revelation“ concerning the difficulty to model an altruistic preference structure, and the problem of „masked preferences“ concerning the intentional misrepresentation of preferences for social reasons.

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