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## WORKING PAPER 0502

<p><b>INDIVIDUAL VALUES AND SENSITIVITY TO CORPORATE ETHICAL RESPONSIBILITY OF BUSINESS STUDENTS AND MANAGERS</b></p>
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## **INDIVIDUAL VALUES AND SENSITIVITY TO CORPORATE ETHICAL RESPONSIBILITY OF BUSINESS STUDENTS AND MANAGERS**

**Abstract:** This study investigates the relationship between individual values and sensitivity to corporate ethical responsibility (CER) among current business students and practicing managers. Using Schwartz's values typology and Maignan and Ferrell's corporate ethical responsibility operationalization, survey data was collected from a sample of 122 students and 254 managers in Switzerland. The results of the study reveal that practicing managers have more collectivistic values and are more sensitive to corporate ethical responsibility (CER) than current business students. Implications for ethics education are discussed.

**Keywords:** Individual values, corporate ethical responsibility, business education

## INTRODUCTION

Corporate social responsibilities are societal expectations of corporate behaviors, *i.e.*, behaviors that are alleged by a stakeholder to be expected by society or morally required and therefore justifiably demanded of a business (Whetten, Rands, and Godfrey, 2002). Among the four corporate social responsibilities identified in the literature (economic, legal, ethical, and philanthropic, *see e.g.*, Carroll, 1979; Maignan, Ferrell, and Hult, 1999; Maignan and Ferrell, 2003; Swanson, 1995; Wood, 1991), the most complex is the ethical responsibility (Clarkson, 1995), which requires that firms follow a mode of conduct considered as morally right (Carroll, 1979). This responsibility also has a strong impact on a firm's social performance, since unethical practices can severely damage a firm and its shareholders as in the Enron and Parmalat cases. The complexity of corporate ethical responsibility (hereafter CER) lays in the lack of generally accepted ethical principles that can be cited or enforced, as with accounting principles. Because of this relativity, managers' individual values and generation are extremely important in shaping their perception of the importance for a firm to pay attention and act according to its ethical responsibility.

Individual values are concepts or beliefs about desirable end states or behaviors that transcend specific situations, guide selection or evaluation of behaviors and events, and are ordered by importance in relation to one another to form a system of value priorities (Rokeach, 1973; Schwartz, 1992). Ethics and values are bound up in the social processes (Swanson, 1995). Because values help to explain action and its motivation (Rokeach, 1973), it is particularly important to account for their role in the education of managers' sensitivity to CER. Ferrell and Gresham (1985) proposed that ethical decision making is influenced by the values that one has learned through socialization such as through family, social groups, and formal education; these values are generally learned during adolescence and are shaped by the values of the generation within one grew up with (Inglehart, 1997; Lubinski, Schmidt, and Benbow, 1996; Meglino and Ravlin, 1998). Because of the recent corporate ethical scandals, business schools have added a mandatory ethics class to their degree programs as an independent course or as

a component of existing coursework (*Business Week*, 2004) and therefore the new generation of business students should be more sensitive to ethical issues. Despite these recent changes, many business schools are still grappling with the most effective way to teach ethics to their students (*Business Week*, 2004; Young, 2004).

Recently, studies have started to pay a great amount of attention to the importance of individual values in learning ethical behaviors and evaluating moral issues, but few researchers have empirically examined how specifically cultural values are related to ethics (*e.g.*, Blodgett, Rose, and Vitell, 2001; Christie, Kwon, Stoeberl, and Baumhart, 2003; Lu, Rose and Blodgett, 1999; Vitell, Nwachukwu and Barnes, 1993; Wines and Napier, 1992; Yoo and Donthu, 2002). Most of these studies compare nations that vary culturally, but such an approach fails to specify how individual-level values are related to ethics (*see* Yoo and Donthu (2002) for an exception). Country-level culture stereotypes individual members within the country as having the same culture and ignoring individual differences in cultural values (*e.g.*, all Americans are individualists and all Chinese are collectivists) (Yoo and Donthu, 2002). Sensitivity to CER is an individual-level characteristic, so values also need to be measured at the individual level. The objective of this study is therefore to test if there are differences in the individual values held by business students and practicing managers and if these differences, if any, can explain differences in sensitivity to CER.

## **HYPOTHESES DEVELOPMENT**

Building on and extending Rokeach's (1973) work, Schwartz and colleagues (*e.g.*, Schwartz, 1992; Schwartz and Sagiv, 1995) developed a typology of ten values: self-direction, stimulation, hedonism, achievement, power, security, conformity, tradition, benevolence, and universalism (*see* Schwartz 1992 for a complete description). These ten values reflect a continuum of related motivations, which gives rise to a circular structure (*see* Figure 1) that classifies values based on their degree of compatibility and conflict. Of the numerous cultural values that have been identified, individualism and

collectivism have received the most attention and have been the focus of particularly rich theoretical description (*e.g.*, Hofstede, 2001; Schwartz, 1992; Triandis 1995). Individualism pertains to people who are only looking after themselves and their immediate family and collectivism pertains to people who, from birth onwards, are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty (Hofstede, 2001). Power, achievement, hedonism, stimulation, and self-direction are individualistic values and universalism, benevolence, conformity, tradition, and security are collectivistic values (Schwartz, 1992).

Current students and practicing managers belong to different generations and are likely to hold different values. This is based on personality development theories which identify childhood and adolescence as the period of acquiring values, early adulthood as a period of testing values, middle adulthood as a period of using values, and late adulthood as a period of passing values (*e.g.*, Settersten and Mayer, 1997). Longitudinal research has confirmed that the last major period of personality development is adolescence, and that the basic values and attitudes learned during one's preadult years remain relatively stable throughout one's lifetime (Ingelhart, 1997; Lubinski, Schmidt, and Benbow, 1996; Meglino and Ravlin, 1998). Shaped by significant historical developments in culture, politics and economics that occurred during their pre-adult years, individuals form subcultures with "personalities" reflecting a particular set of values, beliefs, norms, and behaviors (Ingelhart, 1997). Inglehart (1997) also proposed that intergenerational values differences are primarily a reflection of a society's economic and political history. Specifically, generations growing up during periods of socioeconomic and physical insecurity (*e.g.*, social upheaval, war, economic distress, etc.) learn modernist survival values such as economic determinism, rationality, materialism, and conformity to absolute rules. In contrast, generations growing up during periods of security learn postmodernist values such as egalitarianism, interpersonal trust, tolerance of diversity, the importance of subjective well-being, quality of life, and spirituality. Current business students had their formative years in a

turbulent period (war in Iraq, Internet crash, and increase in unemployment rate) that may have contributed to the development of more individualistic values, when current practicing managers grew up in a more stable period, which may have fostered more collectivistic values.

**Hypothesis 1:** Business students attribute higher importance to individualistic values such as self-direction, stimulation, hedonism, achievement, and power than do practicing managers who attribute higher importance to collectivistic values such as security, conformity, tradition, benevolence, and universalism.

Ethical responsibility requires that firms follow the modes of conduct considered as morally right. Codes of conduct or ethics training programs help businesses to meet their ethical responsibilities. Carroll's (1979) categorization has been widely adopted in later research (*e.g.*, Maignan, Ferrell and Hult, 1999; Maignan and Ferrell, 2003; Swanson, 1995; Wood, 1991) and used in empirical studies (Aupperle, Carroll, and Hatfield, 1985; Maignan, Ferrell, and Hult, 1999; Maignan and Ferrell, 2003; Pinkston and Carroll, 1994). Moral development theory (Kohlberg, 1981) suggests that individuals become more ethical with age and experience and thus, older individuals, such as managers would attribute higher importance to ethical responsibility than students (Singhapakdi, Karende, Rao, and Vitell, 2001). Age has often been found to be positively related to ethical sensitivity (Dawson, 1997; Deshpandé, 1997). Sparks and Hunt (1998) also found that practitioners are more ethically sensitive to unethical practices than students. On the other hand, Sparks and Hunt (1998) also identified ethics as a learned individual characteristic. Learning ethics may occur through formal education (*e.g.*, as a stand alone ethics course or as a component of existing business class) and employment experience (Donthu and Yoo, 2002). Sparks and Hunt (1998) found that students who have completed a course in marketing research incorporating ethics components are more sensitive than those who have not. With the recent ethical scandals that have invaded the business press, most business schools have added ethics classes to their degree programs as an independent course or as a component of existing

coursework (*Business Week*, 2004). However, through a meta-analysis of 47 studies on business students' ethics, Borkowski and Ugras (1998) found that the impact of undergraduate majors on ethics was not significant on students' ethical behavior and attitudes. And in their study of undergraduate students, Yoo and Donthu (2002) found that age showed more significant correlations than years in school, but both variables exhibited a similar pattern of correlations with ethics variables. These results may be explained by the fact that ethics and ethical responsibility are abstract and complex and possess a large tacit component, which means that it could be difficult to grasp the concept without experiencing it. Therefore, we hypothesize that:

**Hypothesis 2:** Practicing managers attribute higher importance to corporate ethical responsibilities than do business students.

Cultural values directly affect ethical decision-making, but researchers have generally been interested in studies of country-level cultural values (*e.g.*, Blodgett *et al.*, 2001; Christie *et al.*, 2003; Lu, Rose and Blodgett, 1999), in which all members of a country are treated as if they share identical cultural values. However, culture as learned values varies among individuals (*e.g.*, Schwartz, 1992; Triandis, 1995). Collectivists prefer to act as members of groups rather than individuals and emphasize “we” rather than “I.” In contrast, self-concept, free will, and freedom prevail among individualists, who develop a greater sense of autonomy and personal achievement. As a value, individualism encourages disengagement from the collective and, as a consequence, weakens bonds of social control. Individualism subordinates relationships to personal goals and likely leads to more egoistic ethical decision-making (Cullen, Parboteeah, and Hoegl, 2004). Several empirical studies at the country-level (Blodgett *et al.*, 2001; Christie *et al.*, 2003; Vitell, Nwachukwu and Barnes, 1993) as well as at the individual-level (Yoo and Donthu, 2002) found that collectivism was positively correlated to ethical sensitivity. Therefore, we hypothesize that:



**Hypothesis 3:** Collectivistic values, such as security, conformity, tradition, benevolence, and universalism are positively correlated to sensitivity to CER whereas individualistic values such as self-direction, stimulation, hedonism, achievement, and power are negatively correlated to sensitivity to CER.

## **METHOD**

To test these hypotheses, we collected data from a sample of 376 managers and business students in the French speaking part of Switzerland in 2002. Data from a sample of 122 students was obtained directly in the classroom. The manager sample was obtained by mailing questionnaires to alumni of business school. Of the 606 survey questionnaires mailed out in 2002, 254 usable ones were received, for a total response rate of 41.9%. To measure individual values, we used Schwartz's Value Survey (SVS) (Schwartz, 1992; Schwartz and Sagiv, 1995), which consists of 56 item values measuring the 10 values identified by Schwartz (1992). Each value was measured on 9-point Likert-type scales ranging from "opposed to my values" [-1] through "important" [3] to "of supreme importance" [7] as guiding principles in life. Prior to analysis, the values scores were standardized across the items to correct for response bias (Schwartz, 1992). To measure respondents sensitivity to CER, we used four items developed by Maignan and Ferrell (2003), rated on 9-point Likert-type scales ranging from "I absolutely do not agree" [1] through "neutral" [5] to "I completely agree" [9]. An index of sensitivity to CER has been computed as the average of the scores of the four items (Cronbach's  $\alpha = .67$ ).

## **ANALYSES AND RESULTS**

Before testing the first hypothesis, we ran a multidimensional scaling analysis (MDS), similar to the one used by Schwartz (1992) to evaluate the values structure. The results are satisfactory with a stress of .35 and a RSQ of .47, comparable to those presented in Schwartz (1992). The relationships between the values are also as expected (*see* Figure 2). However, some value domains did not emerged as distinct regions; some value items

being intermixed with values items of an adjacent domain. Following, Schwartz (1992) and Grunert and Juhl (1995), value domains with intermixed value items were combined, resulting in six distinct regions: (1) universalism, (2) self-direction, (3) stimulation and hedonism, (4) achievement and power, (5) conformity and security, and (6) tradition and benevolence. Six misplaced items out of 56 needed to be deleted before running the discriminant analysis because they were located in regions far from their expected location (for comparison, Schwartz and Sagiv (1995) had to delete 13 values).

To test the first hypothesis, we computed a discriminant analysis to assess whether business students and managers can be distinguished by the importance they attach to certain values. The results of the discriminant analysis provided a highly significant canonical discriminant function ( $\chi^2 = 166.68$ ,  $p < .001$ ), where the group mean for the students was  $-1.13$  and  $.54$  for the managers. 79.3% of respondents were correctly classified (60.7% of the business students and 88.2% of managers), which is satisfactory. Table 1's first two columns present students' and managers' mean scores for each of the value items with the standard deviation in bracket. The third column provides the  $t$ -values of univariate difference tests. The fourth column shows the correlations between the value items and the canonical discriminant function. Figure 2 shows the 50 values discriminating between business students (values represented by black triangles) and managers (white squares), and irrelevant for discriminating between the two groups (gray circles). Value items that are important for business students are mainly located within achievement and power domain and in the stimulation and hedonism domain, which are individualistic values. Concerning the managers, the values that are important for them are more intermixed between the domains, but two-thirds of them are located in collectivist value domains, mainly the universalism and the tradition and benevolence domains. Hypothesis 1 is therefore supported. To check if this difference in values between students and managers resulted from a difference in terms of generation, we tested the age difference between the two groups. Students' average age is 22.39 with a standard deviation of 2.34 and managers' average age is 42.79 with a standard deviation of 14.85, which is significantly different ( $t = 21.24$ ,  $p < .001$ ).

To test hypothesis 2 about the differences between students and managers in terms of CER, we computed a cross tabulation test. Before running the test, we median split respondents based on the ethical responsibility index to obtain two groups of equal size with low and high sensitivity to CER. Table 2 shows the contingency table. The results of the test clearly indicate a covariation between membership to the student and manager groups and sensitivity to CER ( $\chi^2_{(1)} = 37.17, p < .001$ ) indicating that managers are more sensitive to CER than students. This result supports Hypothesis 2.

Hypothesis 3 stated that collectivist values, such as security, conformity, tradition, benevolence, and universalism are positively correlated to sensitivity to CER whereas individualistic values self-direction, stimulation, hedonism, achievement, and power are negatively correlated to sensitivity to CER. The fifth column of Table 1 presents the correlations between each individual value items and the CER index and Figure 3 graphically shows the correlations between the 6 value regions obtained from the MDS and the CER index. Supporting hypothesis 3, Figure 3 presents a sinusoidal curve consistent with the circular structure of Schwartz's value system (Figure 1) and shows that universalism, benevolence, and tradition, which are collectivistic values, are positively correlated with sensitivity to CER and that stimulation, hedonism, achievement, and power, which are individualistic values are negatively correlated to sensitivity to CER. Self-direction, conformity, and security, which are at the border between individualistic and collectivistic values, are not significantly correlated to sensitivity to CER.

## **DISCUSSION AND CONCLUSION**

This study investigates the relationships between individual values and sensitivity to CER among business students and practicing managers. The findings confirm that practicing managers have more collectivistic values and are more sensitive to CER than current business students. These differences may be explained by differences in terms of

generation, age, and experience. Current business students had their formative years in a turbulent period (war in Iraq, Internet crash, and an increase in unemployment rate), which has contributed to the development of more individualistic values. On the other hand, current practicing managers, who grew up in a more stable period, hold more collectivistic values. Older and more experienced managers are also more sensitive to CER than younger, less experienced students as predicted by moral development theory (Kohlberg, 1981; Singhapakdi *et al.*, 2001).

From these results, we can develop some implications for ethics education in business schools. First of all, despite the recent changes in business schools teaching of ethics and corporate ethical responsibility, due to the recent corporate ethical scandals, business students are still less sensitive to REC than current practicing managers. It is therefore important to realize that students' sensitivity to CER cannot only be developed through formal education, because age and experience play important roles in the development of this sensitivity. Secondly, sensitivity to CER being influenced by the values of the students' generation, ethics courses need to be aligned with the preoccupations of this generation and evolve over time with the changes that operate in students' value priorities.

Finally, we recognize that our empirical study only deals with data collected from alumni (managers) and students from one university in Switzerland. Since Switzerland is a country with relatively individualistic culture (Hofstede, 2001), future research may be directed toward testing our hypotheses in countries with a different, more collectivist, culture and from alumni and students from universities with different ethics courses and programs. Also, since individual values are constantly evolving with generations, studying their evolution over time as well as the evolution on their impact on CER may produce fruitful results as well.

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**Table 1. Relevant Values to Discriminate between Students and Managers**

	Average (SD) <sup>1</sup> of the Students	Average (SD) of the Managers	t-value	Correlations between values and the canonical discriminant functions	Correlations between values and ethical responsibility
<b>Values Important for the Students</b>					
Ambitious (AC3)	.33 (.74)	-.15 (.75)	5.75***	-.38***	-.31***
Humble (TR3)	-.20 (.92)	-.63 (.94)	4.20***	-.28***	-.07
Social recognition (PO5)	.18 (.63)	-.09 (.77)	3.28***	-.22***	-.18***
Daring (ST1)	-.87 (.83)	-1.16 (.90)	3.05**	-.20**	-.20***
Enjoying life (HE2)	.40 (.87)	.13 (.94)	2.70**	-.18**	-.14**
Preserving my public image (PO4)	-.35 (.85)	-.57 (.76)	2.53*	-.17*	-.25***
Successful (AC1)	.49 (.66)	.31 (.70)	2.44*	-.16*	-.15**
Honoring of parents and elders (CO2)	.32 (.80)	.13 (.74)	2.23*	-.15*	-.09
Clean (SE1)	.09 (.67)	-.08 (.75)	2.04*	-.13*	-.01
Pleasure (HE1)	.47 (.73)	.32 (.72)	1.99*	-.13*	-.18***
<b>Values Important for the Managers</b>					
Unity with nature (UN2)	-.55 (.90)	-.08 (.79)	-5.20***	.34***	.20***
Curious (SD1)	.15 (.68)	.48 (.71)	-4.38***	.29***	.11*
Responsible (BE5)	.61 (.47)	.86 (.55)	-4.37***	.29***	.15**
Capable (AC2)	.51 (.53)	.75 (.57)	-4.02***	.27***	-.02
A spiritual life (BE6)	-.82 (1.28)	-.33 (1.05)	-3.92***	.26***	.31***
A world of beauty (UN3)	-.58 (.76)	-.26 (.79)	-3.76***	.25***	.11*
National security (SE2)	-.90 (1.03)	-.50 (1.01)	-3.60***	.24***	.04
Protecting the environment (UN1)	-.30 (.82)	.02 (.79)	-3.57***	.24***	.17***
Intelligent (AC5)	.46 (.67)	.69 (.70)	-3.01**	.20**	.03
Creativity (SD2)	-.15 (.69)	.09 (.76)	-2.91**	.19**	.11*
Devout (TR2)	-1.39 (1.26)	-1.08 (1.14)	-2.37*	.16*	.15**
Honest (BE2)	.54 (.69)	.70 (.63)	-2.17*	.14*	.18***
<b>Non Discriminating Values</b>					
An exciting life (ST3)	.10 (.73)	-.07 (.84)	1.93	-.13	-.16**
Wealth (PO3)	-.28 (.88)	-.44 (.75)	1.90	-.13	-.30***
Respect for tradition (TR4)	-.84 (.91)	-.67 (.83)	-1.86	.12	.01
Social power (PO1)	-1.22 (1.01)	-1.42 (.93)	1.85	-.12	-.28***
Healthy (SE7)	.93 (.71)	1.07 (.69)	-1.77	.12	-.06
Equality (UN7)	.43 (.82)	.31 (.85)	1.33	-.09	.17***
Family security (SE5)	.69 (.63)	.78 (.68)	-1.29	.09	.01
Independent (SD5)	-.04 (1.05)	.08 (1.04)	-1.10	.07	.07
Social justice (UN5)	.20 (.79)	.29 (.79)	-1.03	.07	.35***
Inner harmony (UN9)	.65 (.78)	.73 (.79)	-1.01	.07	.13*
Politeness (CO3)	.13 (.74)	.05 (.69)	.95	-.06	.00
Obedience (CO1)	-.31 (.79)	-.39 (.70)	.93	-.06	.03
Self respect (SD6)	.33 (.65)	.40 (.67)	-.88	.06	.01
Freedom (SD3)	.90 (.63)	.94 (.62)	-.61	.04	.06
Forgiving (BE3)	-.04 (.72)	.00 (.71)	-.55	.04	.07
Broad-minded (UN4)	.48 (.76)	.52 (.72)	-.53	.04	.12*
Authority (PO2)	-.83 (.90)	-.87 (.84)	.50	-.03	-.19***
Loyal (BE4)	.76 (.61)	.72 (.62)	.49	-.03	.12*
A varied life (ST2)	.03 (.72)	.07 (.77)	-.49	.03	.02
Social order (SE4)	-.13 (.73)	-.10 (.73)	-.40	.03	-.01
Helpful (BE1)	.05 (.61)	.07 (.66)	-.37	.02	.16**
A world at peace (UN8)	.34 (.88)	.37 (.90)	-.32	.02	.17***
Self-discipline (CO4)	-.16 (.75)	-.18 (.74)	.27	-.02	-.02
Influential (AC4)	-.83 (.87)	-.86 (.90)	.27	-.02	-.11*
Choosing own goals (SD4)	.48 (.61)	.50 (.63)	-.26	.02	-.08
Wisdom (UN6)	.25 (.67)	.24 (.74)	.16	-.01	.14**
Moderate (TR5)	-.57 (.96)	-.58 (.90)	.15	-.01	.11*
Accepting my portion in life (TR1)	-.51 (1.10)	-.50 (1.12)	-.05	.00	-.01

The orders of values correspond to the decreasing size of correlations between discriminating variables and canonical discriminant function.

\* = p < .05, \*\* = p < .01, \*\*\* = p < .001.

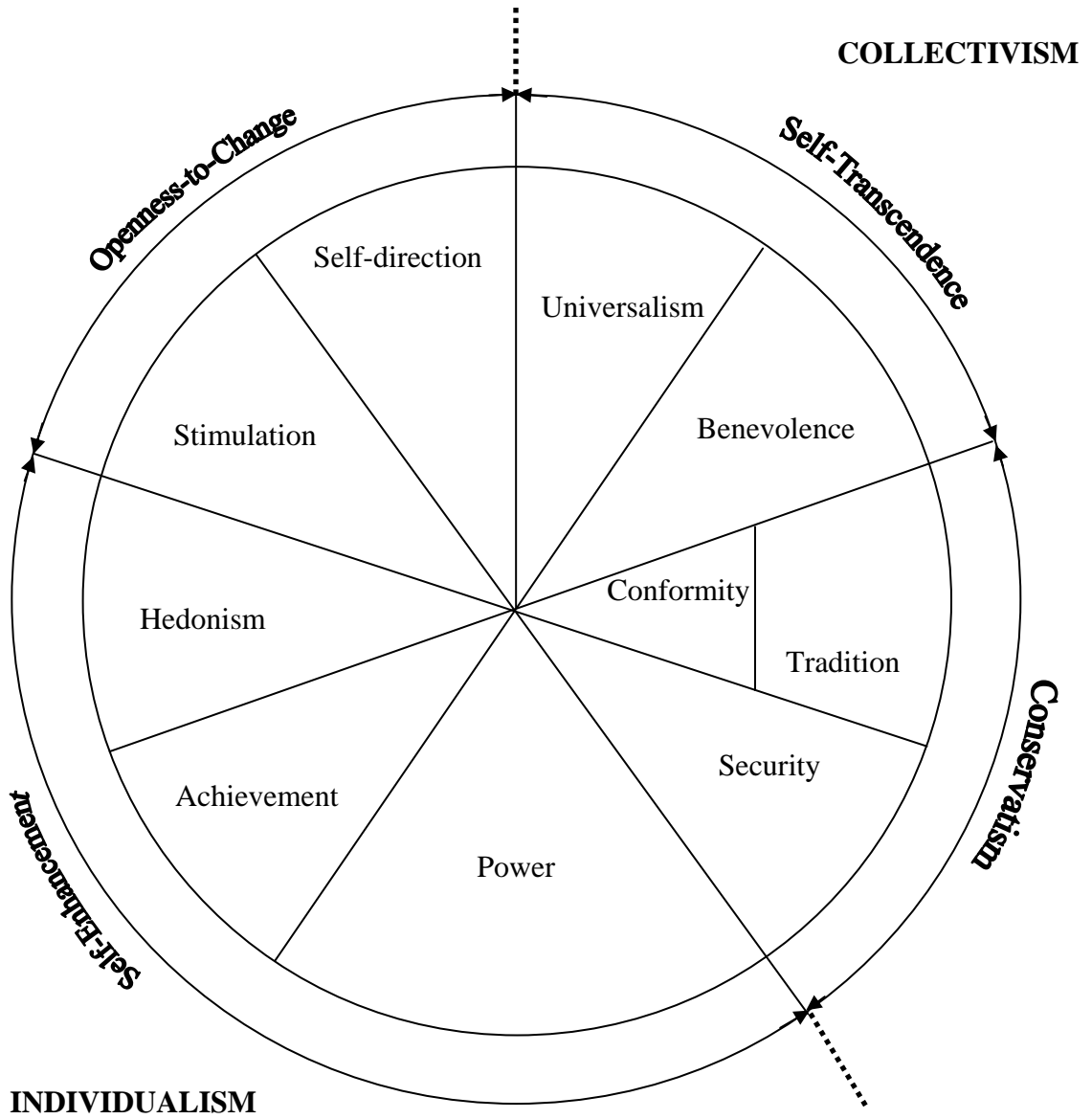
<sup>1</sup>SD = Standard Deviation



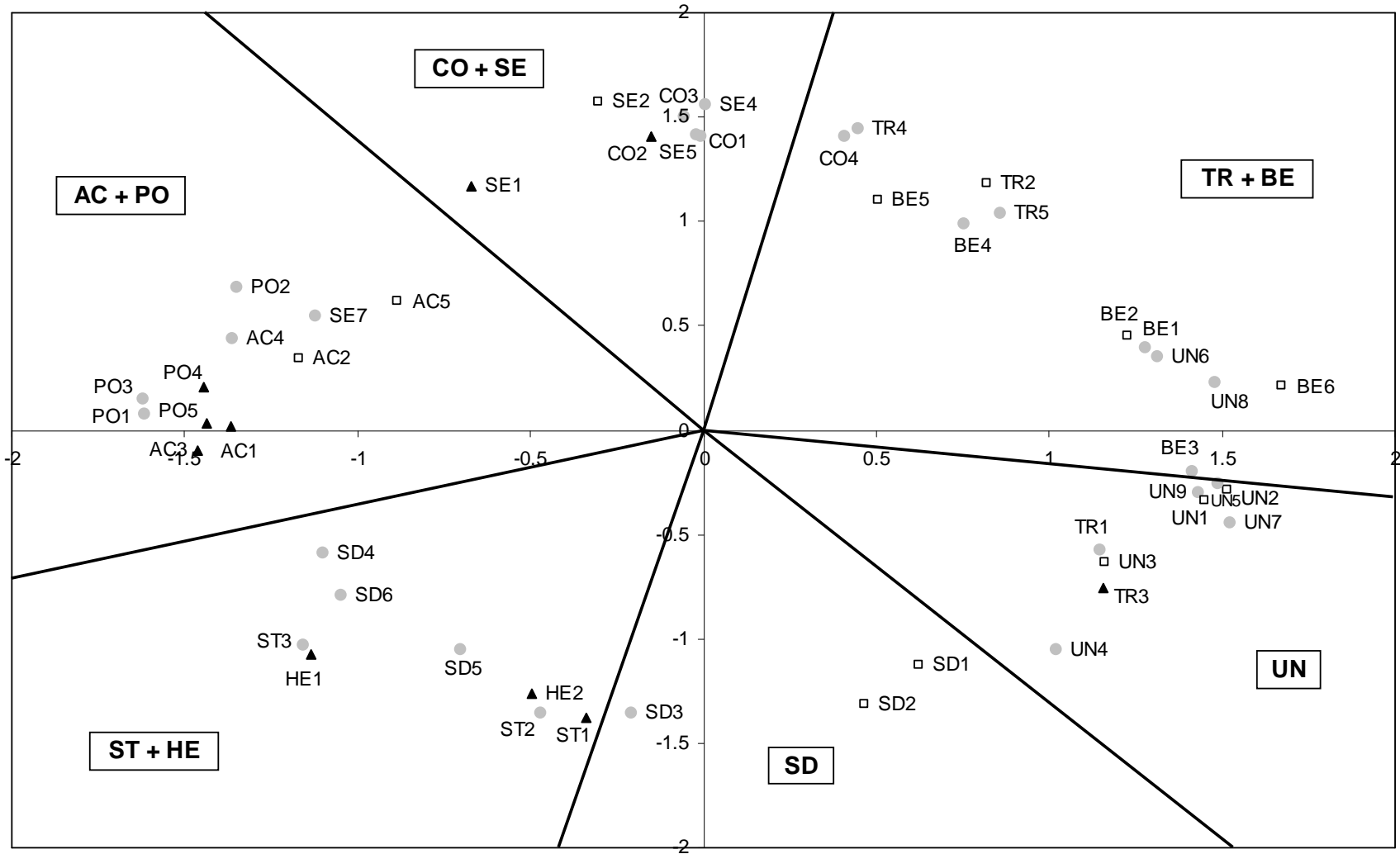
**Table 2. Students and Managers' Sensitivity to Corporate Ethical Responsibility**

<b>Corporate Ethical Responsibility</b>	<b>Students</b>	<b>Managers</b>	<b>Total (%)</b>
<b>Low Sensitivity to</b>	<b>89</b>	<b>100</b>	<b>189</b>
<i>Row %</i>	<i>47.09%</i>	<i>52.91%</i>	<i>(50.27%)</i>
<i>Column %</i>	<i>72.95%</i>	<i>39.37%</i>	
<i>Total %</i>	<i>23.67%</i>	<i>26.59%</i>	
<b>High Sensitivity to</b>	<b>33</b>	<b>154</b>	<b>187</b>
<i>Row %</i>	<i>17.65%</i>	<i>82.35%</i>	<i>(49.73%)</i>
<i>Column %</i>	<i>27.05%</i>	<i>60.63%</i>	
<i>Total %</i>	<i>8.78%</i>	<i>40.96%</i>	
<b>Total</b>	<b>122</b>	<b>254</b>	<b>376</b>
	<i>32.45%</i>	<i>67.55%</i>	<i>(100%)</i>

Figure 1. Values Structure



**Figure 2. The 50 Values Relevant for the Business Students or for the Managers**



**Figure 3. Correlations between Values and Sensitivity to CER**

