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Ethical decision making in business - overview of some antecedents of individual ethical judgment

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Abstract: The paper presents some antecedents to individual ethical judgment, a crucial component of ethical behaviour and ethical decision making in general and in particular within business context. The model of ethical judgment is presented, comprised of individual's evaluative ethical framework and the institutions that shape it. The purpose of the paper is to elucidate on the components of the model and its use in shaping the ethical behaviour in business.

Keywords: business ethics, ethical judgment, moral philosophies, culture, institutional theory

1. INTRODUCTION

Understanding of the ethical decision making within the business context, has been for a long time concern of the academic writings. As Christie et al. ([8]) point out, the first empirical research on the ethical behavior of managers, was done as early as 1961 in writings of R. Baumhart ([3]). The growing interest of media and public in the corporate frauds and scandals, has without a doubt, increased the importance of the ethical decision making topic within the literature of business ethics. Ethical decision-making is considered in a literature as a multi-dimensional and multifaceted process, in which manager assesses different dimensions with mixed outcomes and alternatives, various personal implication, thus culminating in the ethical or unethical behaviour ([7]; [38]; [11]; [18]; [19]; [20]; [39]). One such integral dimension of behaviour is the individual's *ethical judgment*, and the factors influencing it.

The ethical judgment is the manner in which individuals define and evaluate moral dilemmas ([27]). The definition that we found most suitable, is based on the behavioural dimension of ethical judgment – it is the degree to which a behaviour in question is considered morally acceptable by an individual ([2]; [30]). This definition is consistent with the variety of ethical decision making models in the literature, which state that ethical judgment is the crucial antecedent of ethical behaviour. ([20]; [19]). Ethical judgment is also referred to as moral reasoning, moral reflections, moral judgement, moral sensitivity and moral judgement ability ([5]).

2. ANTECEDENTS OF ETHICAL JUDGMENT

The literature in ethical decision making has established two important antecedents of ethical judgment – individual's evaluative ethical framework and the institutions that shape it ([20]; [19]). The following model is a graphical representation of the text to follow:

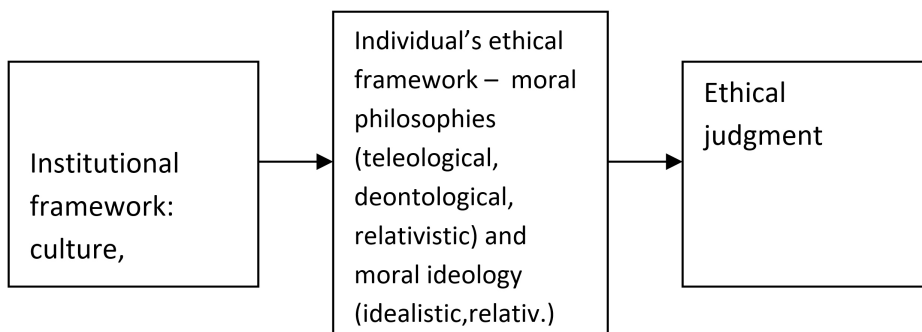


Figure 1: Antecedents of the individual ethical judgment (adapted from [29]; [12]; [18]; [19])

The literature argues that before commencing the actual decision, the individual evaluates the possible alternatives based on the set of individual ethical philosophies she/he possesses ([40]; [18]; [19]; [2]; [12]). Those philosophies are learned through different institutions ([29]), culture ([35]; [36]) and the process of socialization ([6]) and their salience in the individual's life will have effect on her/his ethical behaviour ([9]). The more the salient those ethical philosophies are in the individual, the more they will influence her/his ethical judgment and consequently ethical behaviour.

2.1. INSTITUTIONS AND CULTURE INFLUENCING ETHICAL JUDGMENT

2.1.1. INTRODUCTION

The way a moral agent handles ethical dilemmas depends on the factors of institutions that have shaped her/his value systems. The purpose of this chapter is to shed light on how the institutions shape individual ethical framework. The new-institutional theory gives us the conceptualization of the institutions. In particular, one of its prominent scholars, Douglas North. Institutions are defined as "the rules of the game in a society, orhumanly devised constraints that shape human interaction" ([29], p.3). They reduce uncertainty by providing a structure to everyday life and guide a human interaction. There are 2 main constraints that shape human interaction: formal and informal. Formal constraints represent the variety of rules, expressed as the political and economic rules and contracts (ibid., p. 4, 47). Informal constraints are conventions and codes of behaviour. They are the product of the heritage devised through social transmission of information, and are most commonly known as culture (ibid., p. 4, 36).

The concept of institutions is different from the concept of organization. Organizations are group of individuals bound by the common purpose of goal achievement. The institutions provide them with the rules of the game and opportunities for their creation. Organizations include: political bodies (parties, regulatory agencies, parliament), economic bodies (firms, trade unions), social bodies (churches, clubs, athletic associations) and educational bodies (schools, universities, vocational training centres) (ibid., p.4).

There are several characteristics of institution ([28]; [29]):

1. they are humanly devised creations providing the framework for the human interaction
2. they change, through interaction with individual and organizational agents (change=creation, modification and destruction of institution).

In order to give answer on the question how institutions shape ethical judgment, we must go deeper into an important concept characterizing the institutions - culture. The extensive body of the business literature has established positive and significant impact of culture on different aspects of ethical decision making, including the ethical judgment (for the extensive literature review see [8]). The way that culture shapes the elements in society (beliefs, actions, goals) is through the transmission of *values*. As

Schwartz ([33]) argues, institutional arrangements and policies, norms and everyday practices express the underlying cultural value emphases in societies. (p. 43).

2.1.2. CULTURE AND INTERNALIZATION OF VALUES

The culture has been examined and defined by many research fields. The field of anthropology has defined culture as a system of ideas, referring to the learning process in which culturless human beings become the part of the society ([21]). Swidler ([36]) defines it as “such symbolic vehicles of meaning, including beliefs, ritual practices, art forms and ceremonies, as well as informal cultural practices such as language, gossip, stories and rituals of daily life.” (p. 273).

Culture sets standards for perceptions, beliefs and actions and shapes the societally shared ideas. Those shared ideas represent a “tool kit” of symbols, stories, rituals and world-views, which people use in so called cultural action, or solving the different kinds of problems. ([36]).

Such “tool kit” of ideas provide norms and values of right and wrong, good and bad. They set definitions of what man and woman are and should be ([8]). Swidler ([35]) states that people use culture to learn how to be or become particular kinds of persons. These shared ideas and meanings, or mental programs ([17], p. 14) shape the people’s set of values. Through experiences with the shared ideas people form their inner worlds and learn how to behave in certain situations. ([35]). The characteristic of the values is that they get internalized so deeply that they form the personality, conscious and sub-conscious attitudes and behaviors (see [31]).

Burns ([6]) states that in the adolescent age, the shift from parental home to peer groups of interest happens. There conformity is a way of associating with the peers, and shifting from control, norms and values of parents to those of the wider social system. Adler ([1]) notes that there are two powerful forces with particular influence on the adolescents: the need for self-esteem, i.e. the individual valuation of one’s worth based on persons whose good opinion adolescents value, and the developing capacity for social role-taking. `

He states that persons strive towards power to move away from childhood feelings of inferiority, impotence, dependence on parents by achieving a sense of self-esteem. Since this striving occurs in the societal environment and not in vacuum, as they grow children develop a sense of their societal roles as members of families, communities and society at large. In order to achieve their self-esteem they realize they have to tune it with the strivings of the larger group in the society, since every individual is the essential part of the society. Thus, we can conclude that the socialization serves to transfer the “tool kit” of the shared ideas to the person.

2.1.3. VALUE-BASED CULTURAL DIFFERENCES

Values vary across nations, but also within nations ([40]). Schwartz ([33]) points out that cultural values evolve as societies confront basic human problems. Societies respond to those problems by their respective tool-kits of ideas and values, thus forming their own

unique cultural actions ([36]). The nature of those cultural actions distinguishes one culture from the other.

Within one society there is usually one predominant, mainstream culture and variety of subcultures. Culturally based differences in behavior exist due to life experiences of people from those cultures and are only loosely related to the nation state. ([24]).

A subculture has been defined as a subdivision of a national culture, composed of a combination of social situations such as class status, regional, rural, or urban residence, religious affiliation and ethnic background, that together form a functional unity which has an integrated impact on the participating individual ([23]; [25]). Although many of the subcultures, are to the degree acculturated within the mainstream culture (through language, societal organizations – see [13]), still their cultural embeddedness remains within the subculture.

To explain the differences from culture to culture and nation to nation based on the differences in values, the conceptualization and operationalization of Hofstede's cultural typology is predominantly used by the researchers. However, there are others such as Schwartz's ([33]) typology based on autonomy/embeddedness, hierarchy/egalitarianism, harmony/mastery.

For the purpose of our paper, we are presenting Hofstede's cultural typology. The reasons for that are the significance and validity of Hofstede's work in the variety of cross-cultural and cross-national studies (for review see [8]) for more than three decades now. Also, this cultural typology has been successfully used on the national, macro level and culture-based, micro-level ([40] and [42]).

Hofstede's typology of values is represented through several dimensions: power distance, uncertainty avoidance, masculinity, individualism and Confucian dynamism (discovered by Michael Bond in 1980s). He has also operationalized them on the scale of 1-100.

Power-distance is the degree to which members of groups, organizations and society "expect and accept that power is distributed unequally" Hofstede ([15], p. 28; [16], p. 347). It ranges in value from zero, for a culture with a small power-distance, to about 100, for a culture with a large power distance. Within the small power-distance, the individuals are less likely to tolerate class differences, are not afraid to disagree with superiors, and prefer democratic participation. On the other hand, large power distance means that individuals accept differences between the classes (superiors/subordinates), they are more reluctant/afraid to disagree and believe that superiors are entitled to privileges.

Uncertainty-avoidance is the degree to which individuals within the group, organization or society feel threatened by uncertain events. Uncertainty-avoidance is scored from 0, representing a culture or an individual with weak uncertainty avoidance, to 100, for a culture or the individual with strong uncertainty avoidance. People cope with uncertainty through different means, such as technology, law and religion ([40]). Those means should provide them with beliefs of certainty and should maintain institution

protecting conformity ([16]). Individuals or cultures with high uncertainty avoidance are concerned with security in life, have greater need for written rules and are more intolerant to deviations from those rules. Hofstede ([15]) argues that rules do not have to be effective, since „even ineffective rules satisfy people’s emotional need for formal structure“ (p. 121).

The dimension of individualism refers to the relationship between the individual and collective interests in a group or society. Individualist culture is based on the pursuing of self-interests, loose ties between individuals, looking out only for her/himself and her/his family ([15]). Collectivism refers to the degree to which individuals view themselves as a small part of a larger group, and place the interests of the group before their own self-interests. Collectivists value sense of belonging, respect for tradition, and reciprocation of favors ([40]; [33]). This dimension ranges from 0, for a collective culture, to 100, for an individualistic culture.

The cultural dimension of masculinity refers to societies with strict division of gender roles. Men should be „assertive, tough, and focused on material success“ ([15], p. 82). On the other hand, women should be „modest, tender, and concerned with the quality of life“ (ibid.,). Feminine societies are the ones in which gender roles are not strictly divided, i.e. men can have the characteristics of women and vice versa. The masculinity index ranges from 0 for feminine cultures, to 100, for masculine cultures.

Confucian dynamism was not in the original Hofstede’s framework but was added from the works by Michael Bond ([40]; [8]). It was originally adapted from the Chinese Value Survey in 23 Western and Oriental countries. Although the dimension reflects the Confucian teachings, it is not limited to Asian countries. Confucian dynamism is defined as “work ethic that values thrift, persistence, ordering relationships and having sense of shame. Individuals who follow Confucian teachings restrain themselves within social norms, and avoid feelings of guilt generated by non conformity to local teachings, customs and traditions.” ([41], p.67).

2.2. REVIEW OF ETHICAL PHILOSOPHIES AND ETHICAL IDEOLOGIES

2.2.1. INTRODUCTION

When faced with moral dilemma, the moral agent is faced with plurality of moral responsibilities that cause her/him moral distress, since any action that she/he performs will cause some kind of wrongdoing, either to the certain moral values or to certain people. The way a moral agent handles ethical dilemmas depends on the factors of institutions that have shaped her/his value systems and who have also introduced her/him to a particular ethical philosophies that influence her/his ethical judgment.

Schlenker and Forsyth ([32]) and Forsyth ([12]) have drawn upon normative ethical philosophies (teleology, deontology and ethical scepticism) in order to conceptualize the construct of individual’s ethical ideology. Forsyth ([12]) argues that differences in normative theories can be expressed through two dimensions – relativism and idealism.

He continues that such individual ethical ideology provides a unique perspective to her/his ethical judgment.

The literature so far has defined ethical philosophies and ethical ideologies as important antecedents of ethical judgment ([18]; [19]; [2]; [12]).

We will present the general division of ethical thought, and then continue with description and characteristics of 2 components of ethical ideology— relativism and idealism.

2.2.2. MORAL PHILOSOPHIES

With respect to ethics and morality, Carroll et al. ([7], p. 190) state the following:

“The terms *ethics* and *morals* often are used interchangeably by commentators on business ethics. Both have to do with the standards of right or wrong, fairness and justice.”

The most important normative moral theories are (adapted from [7]; [38]):

1. Teleological: Consequential or Egoism/Utilitarian Ethics
2. Aristotelian or Virtue Ethics
3. Deontological or Duty Ethics, and
4. Relativistic or Ethical Scepticism

Teleological ethics takes into the account a telos or a goal/end while morally evaluating the action ([22]). The consequentialist ethics takes the consequences of the act or the decision as the criteria in the moral judgement ([34]; [37]). The most commonly discussed theories evaluate whether the consequences should focus on the promotion of individual self interest (egoism) or the interest of the greatest number of people (utilitarianism). Ethical egoism has also been classified as a sceptical ethical philosophy, due to non-acceptance of universal moral principles and validity based only on personal values and perspectives ([12]).

The variations of egoism include short-term hedonism and psychological egoism, which states that everyone is psychologically programmed to behave exclusively in their own self interest. On the other hand long-term hedonists, take into account other people and society, by helping the individuals or forming the rules, but only for their own self-interest ([30]). The best known writer of ethical egoism was Ayn Rand, with her work “The Atlas Shrugged”.

Utilitarianism, on the other hand, argues that individuals should produce the greatest good for the greatest number. Individuals should weigh the outcomes of their actions and determine which one brings the highest utility to the society. However, the problem of the utilitarianism lies in the fact that the ends are more important than the means to it, and that the minority voice in the society is out-voiced by the majority. The most important “utilitarians” are Bentham and J.S. Mill.

Virtue ethics is based on the writings of Greek philosopher Aristotle (4 BC.). It is based on the notion of *eudaimonia* or happiness, blessedness, prosperity ([26]), as the *summum bonum* of a human endeavour ([22]). The path to *eudaimonia* is based on the development of one’s *ethos* or character through the cultivation of virtues ([14]). The

virtuous path was the one between the two extremes, the so called Golden Mean. In order for the action to lead to goal of *eudaimonia*, it had to be the embodiment of a virtue. Thus, the action was a representation not of a temporary need at a certain time, but of the true need. The central virtue was *phronesis*, or the practical wisdom based on the **experiential knowledge**¹, for which a person had to possess both “head” and “heart”, *ethos* and intellect. Cultivation of *phronesis* as the path to *eudaimonia* meant the integrity of the speech and action and guidance by the inner universal moral laws ([14]; [26]; [22]).

Deontological ethics considers action morally right because of some characteristic of the action itself, not because the product or the end of the action is good ([37]). The most known deontologist is Immanuel Kant, who stated that it is person’s duty to behave in a moral way. There are two kinds of duties (imperatives): hypothetical and categorical ([4]). Hypothetical imperative represents the duties based on doing something x, in order to get y. For example, one works because one wants to earn money. On the other hand, the categorical imperative or duty underlies fundamental principles of ethics, since it is based on the acts derived from the universal laws of nature (ibid., p. 4). According to deontologists, it is our duty to satisfy legitimate claims or needs of others, obey contracts and explicit promises (contractualism).

Relativist ethics or ethical skepticism states that all ethical norms are a function of culture or individual ([30]). Since every culture has it’s own values and norms of behavior governing it, there are no universal rules which could be applicable from one culture to the next. Within the society, individuals have different values, there can be no universal rules governing the society as such (ibid., p.651). Moreover, the morality should focus on the appropriate context, i.e. every situation must be examined individually rather than using the principles of good and bad ([12]). Relativistic argument is very often used as a business defense from the unethical behavior in the international settings, as being culturally acceptable for the countries in stake.

With respect to the construct of ethical ideology ([12]), both teleology and deontology are more idealistic than relativistic, since they are based on certain universal moral principles which govern individuals. For teleologists, these principles will guide them to the extent in the analysis of the *telos* or the goal. On the other hand, deontologists will use the universal natural laws as the basics for the inherent rightness of the action ([2]; [12]).

Next section will explain more deeply the concept of ethical ideology.

2.2.3. ETHICAL IDEOLOGIES CONSTRUCT

The construct of ethical ideologies was conceptualized in the works of psychologists Schlenker and Forsyth ([32]) and Forsyth ([12]). It is based on the psychological research that has observed individual variations in the moral judgments. Schlenker and Forsyth ([32]) suggest that there could be more parsimonious explanation to the individual variations in moral judgment, by taking into account whether the individual perceives moral rules as universal or relative.

1 Aristotle considered ethics to be a practical philosophy, along with economics and politics.

As Forsyth ([12]) states: “Some individuals reject the possibility of formulating or relying on universal moral rules when drawing conclusions about moral questions, whereas others believe in and make use of moral absolutes when making judgments.” (p.175). Thus, ethical ideologies are constructed along the dimensions of idealism vs. relativism in one’s moral judgment.

Drawing from the normative ethical philosophies, Forsyth ([12]) presents a taxonomy of ethical ideologies based on 4 different approaches to ethical judgments – absolutism, subjectivism, situationism and exceptionism). Those 4 approaches he identified in 3 specific schools of moral philosophical thoughts: Teleology, Deontology and Ethical Scepticism. The conceptualization is presented with the following table:

Table 1. Forsyth’s taxonomy of ethical ideologies (adapted from [12], p.176)

	Relativism	
Idealism	High	Low
High	<p>Situationists – Ethical sceptics - Fletcher’s situation ethics</p> <p>Reject moral rules; advocates individualistic analysis of each act in each situation; relativistic</p>	<p>Absolutists – Deontology</p> <p>Assumes that the best possible outcome can always be achieved by following universal moral rules</p>
Low	<p>Subjectivists – Ethical sceptics – Ethical Egoism</p> <p>Appraisals based on personal values and perspective rather than universal moral principles, relativistic</p>	<p>Exceptionists – Teleological</p> <p>Moral absolutes guide judgments but pragmatically open to exceptions to these standards, utilitarians¹</p>

Both situationists and subjectivists endorse a variety of ethical scepticism, since they believe there are many different ways to look upon the morality. Subjectivists (ethical egoists) score low on idealism and relativism, since for them moral standards are the product of personal perspectives. On the other hand, situationists (idealistic sceptics) score high on idealism and high on relativism since they distrust the universal moral principles and look for contextual appropriateness. (ibid., p.176). Forsyth ([12]) quotes the Fletcher’s situation ethics, which states that all actions should be judged based on agape and contextual fitting rather than on notion of what is good or right.

However, here we must argue that such conceptualization of situation ethics is based on rather shallow premises. Situation ethics is hard to define in a normative sense, since the notions under which it is based surpass the realm of normative ethics and venture into the realm of metaphysics. There is a great universalism behind it’s premises, namely agape. Although Fletcher ([10]) states that the right decision will depend on the situation and thus it cannot be decided upon beforehand, based on the codes of laws, he argues that the decision will be made upon one underlying principle – the agape of the summary commandment to love God and the neighbour (ibid., p. 30). There is no scepticism towards other principles, but only a strong confirmation that actions done

with the notion of agape are based on the intrinsic goodness. Agape here is seen as “an altruistic other-directed disposition which seeks no reciprocation” ([22], p. 186) Thus, situational ethics is teleological (in a normative sense, idealistically utilitarian) rather than sceptical. It also demands an individual of a high moral development, thus dwelling in the realms of metaphysics, a notion hard to conceptualize and operationalize.

Deontologists and teleologists vary across the non-relativistic side. Absolutists, scoring high on idealism and low on relativism, emphasise the importance of moral evaluation based on the universal and absolute moral rules. Regardless of the consequences, there cannot be exception from that rule. On the other hand, exceptionists take a more pragmatic point of view in saying that actions are guided by certain moral absolutes, but we should also consider the *telos* or the end/goal those actions produce.

CONCLUSION

This article presented some of the antecedents of individual ethical judgement, based on the extensive writings of Hunt and Vitell [18], [19], Forsyth [12] and institutional theory devised by North [29]. We have argued that individual ethical judgment is the intergral dimension of individual ethical behaviour and ethical decision making, and as such represented the core essence of business ethics. In the light of almost two decades of major corporate scandals, starting from the likes of Enron and Worldcom, ethical decision making has become a *conditio sine qua non* of a social responsible modern business. Formation and cultivation of individual ethical judgment in business is at the core centre of all the other ethical endeavours organizations nowadays do, since people are and should be at the core of every organization, representing its’ best and sometimes its’ worst.

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- * Although not used for the taxonomy, based on the literature review on moral philosophies, we believe that Aristotelianism also can be classified under exceptionism, based on it's pragmatic, experience based view on ethics.