Ethics and ethos: The buffering and amplifying effects of ethical behavior and virtuousness

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Abstract:

Logical and moral arguments have been made for the organizational importance of ethos or virtuousness, in addition to ethics and responsibility. Research evidence is beginning to provide, empirical support for such normative claims. This paper considers the relationship between ethics and ethos in contemporary organizations by summarizing emerging findings that link virtuousness and performance. The effect of virtue in organizations derives from its buffering and amplifying effects, both of which are described.

Keywords: virtue | ethics | positive organizational scholarship

Article:

Introduction

It has long been argued, from logic and principle, that organizations should consider supplementing an emphasis on ethics and corporate social responsibility with a concern for ethos or the development of organizational virtuousness (Arjoon, 2000). Emerging research evidence is now beginning to confirm such normative arguments with empirical findings. In this paper, we discuss the relationship between ethics and ethos by summarizing new research evidence that demonstrates the link between virtuousness and performance, particularly in the context of rapid change.

It is not news that organizational life is dynamic, turbulent, and challenging (Nelson and Winter, 1982). Fluctuating economic conditions make even the near future hard to anticipate (Atkinson, 1995). Only soothsayers and charlatans try to predict with any degree of certainty what the world will be like in a decade or more. Things change too fast. For example, the technology currently exists to put the equivalent of a full-size computer in a wristwatch, or to inject the equivalent of a laptop computer into the bloodstream. New computers will probably be etched on molecules instead of silicone wafers (Enriquez, 2000). The mapping of the human genome is probably the

greatest source for change, for not only can bananas be genetically engineered to inoculate against malaria, but new organ development and physiological regulation promises to dramatically alter population life styles. Over 100 animals have been patented to date, for example, and 4 million new patent applications are filed each year related to bioengineering (Enriquez, 2000). Thus, not only is change currently ubiquitous and constant, but also the only thing certain is that the future remains uncertain.

Change and the role of ethics

Frequent and rapid change is especially prevalent for business organizations. Fundamental shifts are taking place in the technology, demographics, and scope of business, requiring organizations to adapt in myriad ways (Davis and MacAdam, 2000; Magnusson, 1994). Routine operations are growing ever more complex, diverse and multinational. Moreover, as business organizations become increasingly prominent and important in daily life, the lines between the social and the economic blur (Pfeffer, 1997). Because corporate decisions often have irrevocable effects on the lives of thousands (Wood, 1991), organizational actions mingle the economic and the moral components (Etzioni, 1988; Frederick, 1986). At the same time, social issues can have unexpected and fundamental effects on business. Consider the airline industry as an example. The events of September 11, 2001 have completely changed the environment for passenger airlines. Because of the terror attacks, revenue has declined by almost half (Maselli and Gonsalves, 2001). The new procedures and practices required by increased security demands are still being developed, and the consequences for every firm in the industry are monumental.

Unfortunately, when everything is changing, it becomes impossible to manage change. Direction becomes meaningless, without some stable reference point. Airplane piloting offers an instructive metaphor for this phenomenon. The key to successful flight is adjusting the plane's movement in reference to a stable, unchanging referent such as land, or the horizon. Without fixed referents, it is impossible to steer a course. Pilots with no visual or instrumentation contact with any fixed point are unable to navigate. Consider the last flight of John Kennedy, Jr., who began to fly up the New England coast at dusk. He lost sight of land and, when it grew dark, the horizon line as well. He lost his fixed point of reference. The result was disorientation, and he flew his plane into the ocean, likely without even knowing he was doing so. He could not manage the changing position of the airplane without a stable reference point.

The same disorientation afflicts individuals and organizations in situations where there are no referents. When nothing is stable, when there is a complete absence of fixed points or guiding principles, people are left with nothing by which to steer. It becomes impossible to tell up from down or progress from regress. Such high levels of ambiguity are troubling because individuals need to feel that they have at least some control of their environment (Depret and Fiske, 1993; Pittman, 1998). Denied a stable referent, individuals create their own, in order to have a sense of control. This can lead them to make up rules, construct interpretation systems, and decide for themselves what is real and appropriate.

The business effects of too much change are apparent in recent corporate scandals. The constantly changing, high pressure, high velocity environments in industries have led some in industries such as energy, telecommunications, and investing, have led some to make up their

own rules. While a part of their actions likely stemmed from personal greed and the desire for economic advantage, that is certainly not the only explanation (Mitchell, 2001). Several of those organizations and the people in them had created their own rules for what was acceptable. Operating in high velocity environments where rules and conditions changed constantly and did not provide a stable referent, they created their own. Although their actions seem unethical and harmful to others, within the rationale they had created for themselves, those actions made perfect sense.

Taking Enron as an example, analysis has suggested that failing knowledge structures precipitated the firm's collapse (Cohan, 2002). A key factor in employees' misrepresentation and distortion was their inability to obtain the information they needed to make informed moral decisions. Many still claim that they did not purposefully commit any wrong. Rather, in the ambiguity of a complex and rapidly changing corporation, they literally could not determine what to do and made decisions based on situationally constructed rules (Cohan, 2002).

Such conditions illustrate why ethics is such an important issue. Ethical principles serve as fixed points. They indicate what is right and wrong, appropriate and inappropriate, by reference to universal standards. A typical response to high velocity, highly turbulence conditions, therefore, is a call to ethics - the implementation of legislative and social norms that emphasize a duty perspective (Wood, 1991). Business ethics typically involve the imposition of specific standards of moral corporate behavior and a cohesive set of rules for appropriate action (Ferrell and Gresham, 1985; Hunt and Vitell, 1986; Swanson, 1995). By offering rules of conduct, ethics seek to provide a stable reference point in the welter of change.

The role of ethics

Ethics has become a central feature of contemporary business. High profile corporate scandals have cast doubt on business leadership (Wood, 2000), and shareholders are making increasing demands for transparency, accountability, and responsibility (Wood, 1991). Similarly, employees are more conscious of their firms' public responsibilities and ethical image (Bartel, 2001; Turban and Greening, 1996). Private individuals, researchers, and governments are calling for reform and for more socially responsible conduct from business organizations (Mitchell, 2001). In response, firms strive to portray themselves as socially and environmentally conscious (Bansal and Roth, 2000; Riordan et al., 1997).

Growing concern with business ethics is also demonstrated in widespread discussion of corporate social responsibility (Steidlmeler, 1987), which expects a "continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (Holme and Watts, 2000; p. 6). Most often, corporate social responsibility involves activities that address problems in the environment - pollution, poverty, health care, environmental sustainability, and so forth. The most common corporate social responsibility acts involve preventing harm - for example, water pollution - or redressing problems that already exist for example, helping to clean up the waterways. Increasing demand for such socially responsible business practices has led to pressure on business from a wide array of sources, both internal and external to the corporation. An important example of such demands is evident in the recent

NASDAQ announcement of plans to screen companies based on their social behaviors (Baue, 2002).

Calls for ethically and socially responsible behavior from business organizations have also led to a surge of regulation. State and federal governments are actively examining policy responses to the issue of business ethics. For example, President Bush is considering a proposal that would prevent firms from being able to use insurance funds to pay for legal fees associated with alleged misconduct (Paluszek and Power, 2003). In addition, a multitude of non-governmental agencies have arisen as ethical watchdogs, offering guidelines and evaluations for ethical behavior. In response, three-quarters of America's largest firms have become involved with at least one of these non-governmental advocacy organizations by agreeing to abide by their standards for socially responsible behavior (Nijhof et al., 2003). Specifying and regulating ethical conduct has become a central feature of contemporary business.

These ethical developments are intended to produce beneficial outcomes, but the issue of who benefits can be particularly contentious for business organizations. A company has a duty to its shareholders as well as to its ethical social responsibilities (Allen, 1992; Berle, 1932), and these two demands are often seen as conflicting (Frederick, 1987). In response to this matter, approximately 125 studies have been published in the past 30 years examining the relationships between companies' socially responsible conduct and financial performance (Hillman and Keim, 2001). A large majority of these studies treated financial performance as the dependent variable, investigating whether socially responsible behavior predicted financial success. Approximately half of those studies found a positive relationship, with the remaining half divided among negative relationships, non-significant relationships, and mixed findings. A great deal of controversy is associated with the reliability and validity of these findings, however, so no firm conclusions have been drawn about the true association between these two factors (Margolis and Walsh, 2003). For example, 70 different measures of financial performance have been used in those 125 studies, and a wide variety of activities have been considered as ethical or socially responsible behavior. No consistent definition of ethical behavior or social responsibility has emerged in these studies.

The problem with ethics as a fixed point

In practice, ethics are understood and implemented as duties (Rawls, 1971). Ethical regulation aspires to clearly describe the duties and obligations of individuals and organizations, to use ethics as the fixed point for business action. However, it is impossible to create a set of rules so comprehensive as to address every possible contingency (Easterbrook and Fischel, 1991; Williamson, 1975). Even a small amount of dynamism makes it impossible to specify every potential situation. All rules depend upon individuals to interpret and apply them; rules only matter if they are followed (Giddens, 1979; Polanyi, 1969). Because of this inevitable interpretive element, ethical rules are ultimately defined by how people apply them (Giddens, 1979; Orlikowski, 2000).

Unfortunately, rules that may initially seem to describe ethical obligations and socially responsible action may actually lead to the reverse. For example, unions often "work to rule" as a means of pressuring management, doing only what is literally specified in contracts and rules.

This pattern of behavior quickly destroys normal organizational functions. Similarly, following the letter of the law in accounting practices, environmental pollution standards, or performance appraisal systems, can lead to the opposite of the intended outcome. Ethics as rules for right behavior are imperfect statements of the aspirations that motivated them. Because no rule is perfect, no ethical guideline can fully serve as the universal fixed point upon which an organization may rely. In fact, defining ethical behavior as duty often obscures the moral standard and motivation behind the rule (Swanson, 1995).

With the vulnerability of ethics as a fixed point, we are returned to the problem this paper began with. What can organizations use a stable referent during pervasive dynamic change? A standard is needed against which change can be managed - a standard that extends beyond duty to the underlying ideal that motivates ethical rules and obligations. We refer to this standard as ethos, or the virtuousness of the organization. The differences between ethics and ethos can be illustrated using a continuum (see Figure 1). Three points - one at each end and a middle point - characterize the continuum. Moving from left to right along the continuum represents increasingly desirable outcomes. In approximate terms, the left-most point can be thought of as a poor outcome, the center as an acceptable one, and the right end as an excellent outcome. The applicability of this continuum to ethics and ethos can best be explained by analogy.
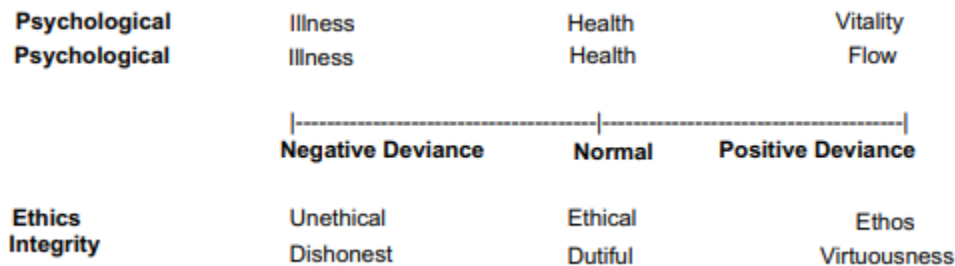
| **Psychological** | Illness | Health | Vitality |
| **Psychological** | Illness | Health | Flow |

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|----------------------------------|----------------------------------|
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| **Negative Deviance** | **Normal** | **Positive Deviance** |

| **Ethics** | Unethical | Ethical | Ethos |
| **Integrity** | Dishonest | Dutiful | Virtuousness |

Figure 1. Outcome continuum.

Think first of the human body. Most medical research, and almost all of physicians' time, is spent trying to help people move from the left point on the continuum (illness) to the middle point (health). Physiologically, the middle point represents an absence of illness or injury. Far less is known - and done - about helping people move from the middle point to a state of exceptional vitality and wellness. In a recent literature review, for example, Mayne (1999) found that studies of the relationship between negative phenomena and health outnumbered studies of the relation between positive phenomena and health by 11-1. More than 90% of National Institute of Health funded research focuses on how to close the gap between a state of illness and a state where illness is absent.

The same is true of the psychological sciences. The majority of psychological research published in the last 50 years has focused on helping people move from the left to the middle point on the continuum (Czapinski, 1985). Psychological research has focused disproportionately on issues related to pathology, and typical research in psychology addresses issues such as overcoming depression, anxiety, stress, or other emotional difficulties (Seligman and Csikszentmihalyi, 2000). Far less attention is paid to the factors and processes involved in moving from a condition

of satisfactory health to one of psychological flourishing or a "flow" state (Csikszentmihalyi, 1996).

As a result, most of what is known about human physiology and psychology involves means for overcoming weakness or illness in order to reach a state of normal functioning. This reflects a historical bias toward restoring normalcy rather than promoting human flourishing. It is simply easier to define and measure normal performance; describing an exceptional or extraordinary endpoint is far more difficult (Staudinger et al., 1995).

Extending this contrast to the realm of business ethics demonstrates the difference between ethics and ethos, and it highlights the distinction between duty and virtuousness. The left end of the continuum is characterized by unethical behavior, or acts that violate rules and produce harm. Most of the effort in research, in legislation, and in the popular press is directed toward preventing or remediating ethical breaches. The emphasis is on identifying standards and ethical responsibilities, and on examining the effects of duty-bound behaviors. In practice, references to ethics usually refer to following the rules - behaving consistently, being trustworthy, not damaging others, or upholding the system. Much less attention is paid to the right side of the continuum, or to organizational virtuousness.

The implicit assumption is often made that if organizations are prevented from producing bad outcomes, good ones will inevitably result. However, this is not necessarily the case; abiding by rules, following through on duty, and avoiding harm is different than the phenomena on the right side of the Figure 1 continuum (Arjoon, 2000). Unethical behavior produces harm, violates principles, and does damage. Ethical behavior usually refers to rule-following and an absence of harm - behaving consistently, being trustworthy, not damaging others, supporting or investing in the system (Ferrell and Gresham, 1985; Hansen, 1992; Hunt and Vitell, 1986). However, the right side of the continuum refers to conditions that extend beyond the avoidance of harm or the maintenance of the status quo. Terms such as honor, goodness, and ennoblement describe the condition of ethos or virtuousness.

Virtuousness as a fixed point

We use "virtue" in the Aristotelian sense to mean ethos - the internal values that characterize an individual (MacIntyre, 1985; Solomon, 1992 a, b). This contrasts with a view of virtue as a normative set of guidelines, or a catalogue of principles (Josephson, 1993; Walton, 1988). Virtuousness is what individuals aspire to be when they are at their very best. The word virtue is derived from the Greek "arete," which means excellence; it refers to qualities that allow people to excel. States of virtuousness represent conditions of flourishing and vitality (Lipman-Blumen and Leavitt, 1999). Virtuousness is associated with meaningful purpose (Becker, 1992), ennoblement (Eisenberg, 1990), personal flourishing (Weiner, 1993), and that which leads to health, happiness, transcendent meaning, and resilience in suffering (Myers, 2000; Ryff and Singer, 1998). It is the basis of "moral muscle," willpower, and stamina in the face of challenge (Baumeister and Exline, 1999; Emmons, 1999; Seligman, 1999).

Unfortunately, the business world pays scant attention to issues of virtuousness. Words such as virtue, hope, and honor are not typically associated with the modern competitive business

environment. A 17-year analysis of the language in the Wall Street Journal revealed increasing usage of competitive and aggressive language in reference to business (e.g., compete, battle, defeat), and almost no link made between business and ethos, that is, virtue, compassion, and integrity (Walsh, 1999). Modern business language is "morally mute" (Bird and Waters, 1989).

Nonetheless, virtuousness can serve as the fixed referent in times of change, or as the ethos that guides action when everything else is ambiguous (Whetstone, 2003). Ethos identifies that which represents is desirable. It represents what people aspire to when at their best and when they do their best. It buttresses ethics as a stable point by being the underlying standard of goodness that motivated the ethical rule.

Consistent with this reasoning, research on organizations facing turbulent and difficult conditions has begun to accumulate findings that demonstrate the link between virtuousness and performance. For example, a study by Cameron et al. (2004) examined recently downsized organizations in a variety of industries. The research assessed members' organizational experience of numerous virtues such as compassion, integrity, forgiveness, trust, and optimism. The results showed that virtuous organizations significantly outperformed less virtuous organizations in a series of performance measures, including profitability, productivity, innovation, quality, customer retention, and employee loyalty. Similarly in a study of the U.S. airline industry after the tragedy of September 11th, the airlines demonstrating virtuousness universally outperformed other airlines - that is, they lost less money, their stock price recovered faster and to a greater extent, and passenger miles remained higher (Gittell and Cameron, 2003). Studies of health care, military, and governmental organizations facing financial exigency and layoffs encountered fewer problems and enjoyed better performance when they displayed virtuous orientations (Cameron, 1998; Cameron et al., 1987; Cameron and Lavine, 2004).

To summarize the consistent pattern in this research, organizations with high scores on virtue assessments significantly outperformed organizations with low scores. Virtuous firms made more money than less virtuous firms. Virtuous firms recovered more quickly and more fully from downsizing and other trauma. They retained customers and employees more effectively than non-virtuous firms did. Virtuous firms were more creative and innovative.

The implication of these findings is straightforward. In order to cope effectively, and perform successfully, in changing, turbulent conditions, individuals and organizations must avoid doing harm - that is, they must adhere to ethical rules - but they must also act virtuously - that is, foster ethos and the best of the human condition. Virtuousness is associated with positive outcomes, not just the absence of negative outcomes. Virtue produces positive energy in systems, enables growth and vitality in people, and enhances the probability of extraordinary performance. Virtuousness pays dividends; doing good helps organizations to do well. In conditions of turbulent change, virtuousness serves as the essential fixed point - a benchmark for making sense of ambiguity - and as a source of resilience, protecting the system against harm.

Virtuousness plays a role in enhancing organizational performance in uncertain times because of two attributes: an amplifying effect and a buffering effect (see Figure 2). The amplifying effect refers to the self-perpetuating nature of virtuousness. People are attracted to virtuous acts. When they observe virtuousness, they are inspired by it (Sandage and Hill, 2001). They are elevated by

virtuousness, so they tend to reproduce it. That is to say, virtuousness is contagious (Fredrickson, 2003). In organizations, this amplifying effect spreads and expands and, eventually, becomes part of the structure and culture of the firm (Cameron and Caza, 2002).
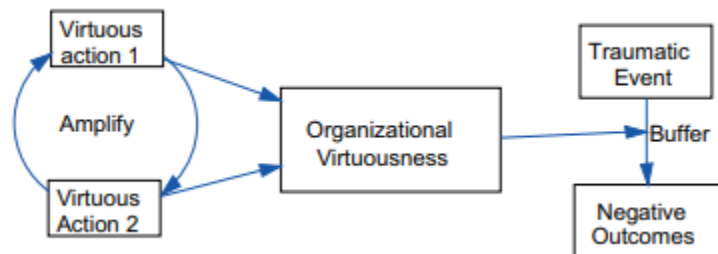

Figure 2. The amplifying and buffering effects of virtuousness.

Virtuousness, amplified in this way, has powerful effects on performance. At the individual level, when people work in a virtuous environment, they tend to be more physically and mentally healthy (Ryff and Singer, 1998; Weiner, 1993). Additionally, virtuous individuals tend to make better decisions (Staw and Barsade, 1993) and to be more creative (George, 1998). At the interpersonal level, virtuousness is associated with affiliative feelings (Haidt, 2000) and leads to the formation of social capital (Bolino et al., 2002). At the organizational level, it produces positive emotionality, meaningfulness, and mutual reinforcement in the organization (Cohen and Prusak, 2001; Dutton and Heaphy, 2003; Fredrickson, 2003; Gittell, 2003).

The second beneficial aspect of organizational virtuousness is its buffering effect. At the individual and group levels of analysis, human virtuousness serves as a buffer against dysfunction and illness. Seligman and Csikszentmihalyi (2000) reported that virtues such as courage, optimism, faith, integrity, forgiveness, and compassion all have been found to protect against psychological distress, addiction, and dysfunctional behavior. Learned optimism, for example, prevents depression and anxiety in children and adults, roughly halving their incidence (Seligman 1991). Similarly, virtuousness buffer individuals from the negative consequences of personal trauma (Seligman et al., 1999), and the cardiovascular, emotional, and intellectual systems in individuals recover significantly more rapidly and completely when they experience virtuous behaviors (Fredrickson, et al., 2000). Individuals who experience virtuousness suffer less psychological distress and engage in fewer destructive behaviors in response to adverse events (Seligman and Csikszentmihalyi, 2000).

At the organization level, virtuousness also serves a buffering function by contributing to the speed and effectiveness of recovery from setbacks (Dutton et al., 2002; Wildavsky, 1991). Downsizing, for example, is an organizational change that almost universally produces undesirable organizational outcomes and ambiguous conditions (Cameron, 1994). Its presence produces at least twelve recurring problem behaviors that lead to poor performance (Cameron, 1998). Virtuousness buffers the organization from such effects by protecting feelings of solidarity, preserving social capital, enhancing collective efficacy, and clarifying purposefulness and vision (Masten et al., 1999; Sutcliffe and Vogus, 2003; Weick et al., 1999).

Worline et al. (2003) reported that aspects of virtuousness in health care organizations (e.g., kindness, love, compassion) helped foster "strengthening," "replenishing," and "limbering"

capacities in organizations. That is, virtuousness strengthened organizations by providing a clear representation of what was desirable, aspirational, and honorable in the organization. It helped to renew organizations through its association with positive affect, social capital, and prosocial activity. Virtue also helped to limber the organization - increasing its capacity to respond adaptively to unanticipated and potentially damaging situations - by enhancing relational coordination (Gittell, 2000, 2001). The presence of virtuousness in organizations serves as a buffering agent that protects, inoculates, and creates resilience, allowing the organization to recover quickly (Gittell and Cameron, 2003).

The organizational implications of virtue's amplifying and buffering effects are profound. Although virtuousness is not a familiar word in most current business discussions, there is good reason to believe it should be. Virtuousness is associated with positive organizational outcomes, not just the absence of negative outcomes. It produces positive energy in systems, enables growth and vitality, and enhances the potential for extraordinary performance.

What makes these effects particularly important for present business concerns is that the beneficial effects of organizational virtuous are especially important in times of change and ambiguity. In stable times, when the future can be predicted with some accuracy, ethics and rules may be sufficient as standards to guide performance. However, in times of turbulent change, when the future cannot be foretold, ethics is often insufficient. Ethos, or virtuousness, must supplement ethical standards. That is, even in conditions of change and ambiguity, virtuousness serves as a fixed point by identifying the best in the human potential as a standard against which to chart a course. Research findings are clear that when virtuousness is present, both individuals and organizations navigate turbulence and uncertainty more effectively.

Given this, it is not surprising lines that evidence suggests the hallmark of great leaders in the 21st century - a century characterized above all by change and turbulence - is that they demonstrate not only ethical behavior - the absence of harm - but also virtuousness - embracing and enabling the highest in human potential (Cameron and Caza, 2002; Collins, 2001). Ethics and ethos serve as fixed points in a sea of confusion. They enable self-reinforcing positive outcomes to occur, and they buffer individuals and organizations from the assaults of a world in which harm, damage, violations of principle, selfishness, and greed are too often ubiquitous.

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