Journal of the North American Management Society

Volume 1 | Number 1 Article 5

May 2006

Promoting Ethical Corporate Behavior in a Global Context

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Spring/Summer 2006
Volume 1, Number 1

NAMS NORTH AMERICAN MANAGEMENT SOCIETY

Journal of the North American Management Society

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An Affiliated Organization of
Midwest Business Administration Association

Journal of the North American Management Society, 2006, Volume 1, Number 1

Promoting Ethical Corporate Behavior in a Global Context

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Abstract: The goal of this paper is to provide executives with actionable strategies for promoting ethical corporate behavior through the recognition, understanding, and management of the social comparison process. To that end, we discuss how social comparison may influence the behavior of managers in ethical contexts and particularly how errors in social comparison (like pluralistic ignorance and false consensus) may increase the number of ethical dilemmas in organizations. We suggest that the appropriate management of social comparison could limit the occurrence of unethical behavior in organizations. We conclude with recommendations for executive actions to initiate programs that may facilitate the development of an ethical corporate culture by emphasizing managerial accountability.

"Wrong may be mainstream these days but that doesn't make it right."
(Parker 2001)

The Sarbanes Oxley Act of 2002 has increased the transparency in mechanisms of external corporate governance designed for oversight of executive ethical behavior. The mechanisms of internal corporate governance, designed for oversight of managerial ethical behavior, are however still vulnerable to moral hazards of managerial misconduct as "hierarchy is the ultimate court of appeal" in organizations Williamson 1994). Although the U.S. Federal Sentencing Guidelines of 1991 allowed for substantially reduced fines and penalties for companies with established programs for ethical education, training and enforcement, the mushrooming of these programs over the last decade or so has not prevented major occurrences of managerial misconduct that have attracted a great deal of public attention in the media.

The concerted nature of such managerial misconduct indicates that the managers made poor judgments when comparing each other's behavioral norms, while neglecting to engage in moral reasoning about the very acts. The resulting spread on unethical behavior, engendered by errors in managerial judgment, shows how biased social comparison may easily make inappropriate behavior become mainstream within groups of managers and employees (as illustrated in the quote under the title of this paper).

Errors that individuals make in social comparison judgments are well known in psychological research, but are seldom a topic of ethics compliance programs. It has been suggested that a plethora of factors influence the resolution of employees' 'personal-professional' moral dilemmas, but these authors omit the profound effect that social comparison may have on managerial ethical choice in the face of this dilemma (Trevino, Hartman, Brown 2000). The purpose of this paper is to integrate past research findings related to the influence of social comparison on ethical decision-making in organizations, with the objective of providing practical guidance to executives on effective ways of addressing these issues.

What is Social Comparison?

Social comparison occurs when a manager seeks information about his or her behavior by looking to another person (whom we call a referent other). Interest in this topic has remained steady since Leon Festinger first proposed a theory of social comparison in the early 1950's (Festinger, 1954). Festinger postulated that social comparison occurs because of an innate need to evaluate our opinions, abilities, and behaviors in comparison to those of others. Making this comparison assists in assigning meaning to our opinions, abilities, and behaviors. For example, a manager in the organization may receive ratings of "outstanding" on all of the dimensions of a performance evaluation, and on the surface, one might think the manager was doing outstanding work. This might be confirmed if the manager compared the appraisal information to that of others to find that others received lower ratings (e.g., "good"). Alternatively, if the same manager determined that other managers received "outstanding" on all of the dimensions of their performance appraisals, the manager may question how well he or she is actually performing. In essence, this would facilitate a reevaluation of the term "outstanding" due to the social comparison process.

To Whom do Managers Compare Themselves?

Understanding the dynamics of a managers' choice of referents is a key issue in understanding social comparison in an ethical context. In such situations, managers may turn to any number of referents, including their colleagues, superiors, and even others that work outside the organization. Past studies of referent selection have supported two important considerations in choosing a referent other: 1) the availability of the referent information (e.g., ease with which observation of behavior is available, prominence in the organization, proximity in the organization to the manager) and 2) the relevance of the referent information (e.g., how similar the referent is to the manager, individual motivational issues such as whether imitating the referent might lead to rewards) (Fulik & Ambrose 1992).

In terms of both availability and relevance, comparison to one's colleagues is expected. For example, it is often easiest to observe colleagues and they are often most similar to the employee in terms of job status. Indeed, research has found that employees and managers compare to their peers when looking for information that is specific to the job (or position) in the organization Shah 1998). This suggests when considering the ethical standing of behaviors that are specific to one's job, he or she would compare to others doing the same job.

However, considering only the role of colleagues would not fully incorporate the situational determinants of referent selection, particularly in terms of referent relevance. When they can obtain referent information from sources at higher levels of an organization, employees and managers may value that information to a greater extent, because of the political value of aligning one's actions with those of senior managers and executives of an organization (Byrne 1971). Moreover, when the behavior in question is not necessarily limited to the scope of a specific position in the job (e.g., where the actions on the job may have more far-reaching organizational impact), a common referent will likely be a senior manager or executive of the organization, as managers may likely perceive that these individuals represent the entrenched and espoused ethical culture of the organization.

Managers can also compare to a "self-referent," where they compare their behaviors to their personal goals. This phenomenon is related to the "two-selves" problem that has seen a resurgence in management research. The two-selves problem emerges in situations where managers feel social pressure to do the same thing they think others would do, but privately they want to do something different. In the case of ethical behavior, managers may *want* to act unethically, because they observe other managers in the organization acting unethically and want to fit in, but know they *should* act ethically. Under what circumstances will managers choose to behave in the way that they want to act rather than in the way that they should act? Researchers have suggested that in situations of low accountability, where there is less perceived need to justify one's behavior, managers will be more likely to choose behavior in which they *want* to engage Bazerman, Tenbrunsel & Wade-Benzoni, 1998).

Adding Challenges: Errors in Social Comparison

One of the underlying assumptions of the preceding discussion has been that managers may err in choosing appropriate referents and/or norms of behavior, but always make accurate comparisons with others. Unfortunately, there is a growing body of research that suggests that this is not always the case (Halbesleben & Buckley 2004).

FIGURE 1

THE IMPACT OF PLURALISTIC IGNORANCE AND FALSE CONSENSUS ON ETHICAL DECISION-MAKING

Social Comparison Phenomena

	Pluralistic Ignorance	False Consensus
Functional	**May lead managers to act ethically even if they might otherwise act unethically** (e.g., observation of ethical behavior might lead one to mistakenly assume others act ethically)	**Justifies ethical behavior that one would have engaged in anyway** (e.g., everyone else is acting ethically, I'm not any different from anyone else)
Dysfunctional	**May lead managers to act unethically even if they might otherwise act ethically** (e.g., observation of unethical behavior might lead one to mistakenly assume others act unethically)	**Justifies unethical behavior that one would have engaged in anyway** (e.g., everyone else is acting unethically, I'm not any different from anyone else)

I may be unethical, but I'm just like most others: false consensus. One social comparison error, called false consensus, occurs when the manager believes that he or she is acting similarly to most other managers. False consensus is the tendency for managers to overestimate support for their own position, while underestimating support for an opposite position (Marks & Miller 1924). As a result of overestimating support for a position, a manager is led to believe there is greater similarity between her/him and others than actually exists. This misperception leads to justification for continued dysfunctional behavior. Given the incorrect assessment of others' behavior, the manager bases his or her choice on a faulty premise that his or her ethical behavior is representative of the majority of other managers.

For example, consider an organization that is dumping toxic chemicals through its wastewater into a local river. The manager of this organization may perceive most other organizations also dump toxic chemical waste, but may not be aware his/her perceptions are an overestimation. In other words, most others are not dumping chemical waste—at least not as much as the manager believes. Nonetheless, the organization may continue to dump chemical waste, as the manager is convinced that such behavior is justified given the (misperceived) similar behavior of others.

As Figure 1 suggests, false consensus can serve either a functional or dysfunctional role in terms of ethical decision-making. The example above illustrates the dysfunctional influence of false consensus, where the overestimation refers to unethical behavior. On the other hand, a manager could overestimate the likelihood of ethical behavior, leading the manager to reaffirm his or her commitment to ethical behavior. Executives, through the development of an ethical culture, can help encourage employees and managers to think about their ethical behavior as consistent with the norms in the organization. Such thinking, even if it is the result of false consensus, can increase the likelihood of ethical behavior.

I'm ethical, but most others are not: pluralistic ignorance. A more pervasive error of social comparison, pluralistic ignorance, occurs when managers mistakenly believe they are alone (or in minority) in their perceptions in terms of the ethical assessment of the situation. The opening quote illustrates such a misperception. While she did not think fudging numbers was ethical, she mistakenly believed that most others thought it was an acceptable and ethical form of behavior.

Research exploring pluralistic ignorance in ethical standards of organizations can be linked back to work in the 1960's. In a survey of executives, Baumhart reported most American business executives perceived themselves as ethical, while perceiving that most other business executives were unethical (Baumhart 1961). Buckley, Harvey, and Wiese argued that one mechanism leading to such prevalent overestimation of unethical behavior stems from the media's heavy coverage of the unethical behavior by the minority of business executives Buckley, Harvey & Weise 2004). On the one hand, stories of executive unethical behavior have been nearly inescapable to anyone who regularly watches national or local news sources, particularly those interested in business-related news. On the other hand, it is rare to hear about stories commending the model examples of executive ethical behavior and corporate social responsibility. This can lead to an overestimation of the prevalence of unethical behavior on the part of executives, setting up an inaccurate social comparison situation.

These findings of pervasive self-enhancement appear to beg the question: if every manager is really ethical, then why do unethical behaviors occur? The key to answering this question may be in examining the behavior that results from pluralistic ignorance. A number of researchers suggested when people experience pluralistic ignorance, they adjust their behavior to fit with the perceived group norm, rather than realizing they are mistaken about how others feel (Halbesleben & Buckley forthcoming). Mapped on to the employee level, pluralistic ignorance may lead to the development of barriers against employee attempts to stop unethical behavior of managers. While there are certainly many factors involved in decisions to report unethical behavior (i.e., whistle-blowing), errors in social comparison can be influential. In context of the first opening quote in this paper, the group norm perception regarding fudging numbers gave the employee justification for unethical behavior. However, if an employee observes behavior believed to be unethical, but mistakenly believes that others support the unethical behavior, the employee will be far less likely to report offenders. Effectively, the person might perceive that others support the offender's behavior; therefore, blowing the whistle would not have an impact on the unethical behavior and could lead to negative consequences for him or her individually.

How Can Executives Address Issues of Social Comparison to Promote Ethical Behavior in Organizations?

Given the potential for problems associated with social comparison in ethical contexts, it is important for executives in organizations to initiate programs to address these concerns. In this section, we offer recommendations for executives to address social comparison problems in ethical context by devising programs that are based on the previous discussion and grounded in established theory and research. We begin by discussing solutions for identifying social comparison problems in ethical contexts, using Figure 2 to provide a visual depiction of the key components involved in understanding and addressing social comparisons in ethical contexts for managers. These components can be used as building blocks of an appropriate program to address social comparisons issues.

FIGURE 2

RECOMMENDED EXECUTIVE ACTIONS TO MANAGE SOCIAL COMPARISON TO PROMOTE ETHICAL CORPORATE BEHAVIOR

- **Identify Ethical Settings Leading to Dysfunctional Social Comparison**
    - Identify the settings where of frequent dysfunctional social comparison errors occur
    - Develop managerial awareness of social comparison process and the associated errors through training

- **Develop a Pervasive Ethical Culture of Managerial Accountability**
    - Develop ethical guidelines addressing social comparison issues
    - Nurture a culture of managerial accountability in social comparison

- **Recognize the Influence of Social Comparison Referents**
    - Minimize the number of ethical dilemmas that influential managers raise
    - Manage social comparison referent points by decision context

- **Manage Informal Communication Channels**
    - Identify and dispel inaccurate rumors regarding unethical behavior
    - Manage communication about social comparison in group decision-making settings

Identify Ethical Settings Leading to Dysfunctional Social Comparison

To address issues of social comparison by managers in business ethics contexts, executives must be able to identify when these problems are occurring or might occur. Indeed, Rest has suggested that awareness of moral/ethical situations is the first step in moving toward moral action (Rest 1986). Given the pervasiveness of managerial use of social comparison in organizations, this can be daunting, but a necessary task nonetheless.

A key to detecting problems with social comparison is relating the corporate code of ethics to the settings in the work environment within which the decision-making process occurs. If the environment is ambiguous in terms of interpreting the applicability of the code of ethics across some work settings (a seemingly omnipresent situation in many today's organizations experiencing radical and frequent changes), it may lead managers to engage primarily in social comparison processes. Identification of such settings is facilitated by regular communication between employees. Identifying those settings where the major issues the managers are facing occur, particularly those related to business ethics, is important for understanding the uncertainty under which they are functioning.

Another way to detect problems with social comparison is to identify the settings in which frequent changes of managerial behavior and decisions occur and those decisions appear to go forward with minimal scrutiny in the organization. Particularly important is to notice settings in which managers who once supported the decision later appear to not support it (or vice versa). This may be a sign that they exhibited the original support because of a mistaken belief that others supported it, too. The bottom line in this case is that executives need to develop a systematic approach to identifying and monitoring the settings conducive to social comparison in which managers' decision-making relative to ethical issues may undergo changes. It is important that organizations concentrate on developing programs that ensure the corporate norms of conduct are appropriately interpreted across these settings.

An important step to manage social comparison, following identification, is to initiate a formal training program for managers and executives intended to increase their awareness of the potential problems that might accompany social comparison. This training should particularly address ethical problems associated with pluralistic ignorance and false consensus. Researchers in false consensus and pluralistic ignorance have suggested that simply exposing managers to the notion of errors in social comparison and the influence it has on their decision-making can be effective in creating more accurate social comparisons and better ethical decision-making (Halbesleben & Buckley 2004).

This type of training should be concerned with asking managers to consider how they engage in social comparison in situations that involve ethical decision-making. The training should primarily focus on situation-specific examples of how social comparison can lead to, or has resulted in, inappropriate ethical decisions. A critical component of these training programs is open discussion concerning the impact of dysfunctional social comparison errors. The goal of this type of training is to turn dysfunctional social comparison errors into functional comparison information (see Figure 1).

Develop a Pervasive Ethical Culture of Managerial Accountability

A key step in developing an ethical culture of managerial accountability is to demonstrate the sponsorship of top management. When ethical guidelines are supported by top management and well communicated within organizations, they can be quite effective in facilitating ethical culture. However, they can only set the stage for members of senior management, particularly top management, to adhere and be role models for the ethical principles they condone. This role modeling will facilitate others to follow, because others will likely use top management members as their social referents for ethical behavior, as discussed above.

In conjunction with sponsorship and role modeling by top management, ethical guidelines address issues of social comparison in two ways. First, they may minimize the ambiguity that can spawn ethical dilemmas. If a manager clearly understands how the senior management of an organization expects him or her to act in a given situation, less opportunity for ambiguity occurs and there is less need to turn to referent others as a guide for appropriate ethical behavior.

Second, if the members of the top management team exhibit ethical conduct by following the guidelines, they become the primary positive referents in terms of ethical behavior for both line and staff managers. Ethical guidelines emphasize the relevance of top management as a useful referent for ethical behavior, by reinforcing the political and motivational connection between ethical behavior and social ties to higher levels in the organization. Whenever managers encounter a situation that remains ambiguous despite the guidelines, he or she will engage in social comparison with top managers as their referent others. This will go a long way in suggesting that all managers should do the same.

Recognize the Influence of Social Comparison Referents

In line with the above discussion, it is important to understand not only how managers choose their referents but also what influence those referents can have on the ethical decision-making by managers. Of particular importance are those referents that are important vocal minorities and whose actions can have disproportionate impact on other managers. This requires careful observation and regular communication between executives and managers in order to determine which managers have emerged as influential opinion leaders of the organization (as they often tend to increase the set of ethical dilemmas for other managers in the organization).

Executive understanding of minority influence also underscores the need to allow other managers to express their opinions and concerns, particularly in group contexts. All should be encouraged to share their opinion and be assigned the role of critical evaluator of their own and other opinions. Minority influence becomes significant only when members of the silent majority do not express their opinions, thus leading to the perception that the minority has more support than is actually the case. Supporting more open communication that candidly challenges ideas can suppress the influence of vocal minorities, and therefore reduce the number of ethical dilemmas and facilitate ethical decision-making.

Managers sometimes cannot match the external ethical culture in the environment and the internal ethical culture of the organization when making ethical decisions, and therefore need to turn to various referent others. However, when the external environmental change accelerates, the risk of making an unethical decision increases if managers rely on a closed circle of referent others. In response, managers tend to expand the number of their referent focal groups to make social comparisons. For example, if the manager is to make a decision that is related to the company's branding strategy of local, national, international or global scope, he or she might make a social comparison with other marketing managers referring to them as individuals, members of a professional group, members of national association, or members of a national culture. Therefore, we recommend that executives better understand the norms of focal groups that managers may use in their social comparisons. Moreover, it is important that executives encourage managers to articulate explicitly the ethical norms of different referent foci so that they fit with the decision environment within which the manager is working.

Manage Informal Communication Channels

A critical factor in the managing of social comparison issues is an understanding of how managers arrive at the comparison information they utilize. Social comparison information can be gained either by direct observation of another manager's behavior or by hearing about another manager's actions. While observation effects should be managed by influencing individual managers directly, the hearsay effects should be managed, to some degree, by influencing informal communication channels in the organization. This means that executives must be vigilant about clarifying ethical issues in organizations, setting up a clear expectation for ethical behavior, and identifying/dispelling inaccurate rumors regarding unethical behavior in their organizations. Executives have to take the lead in reducing the amount of ambiguous and inaccurate informal information about ethical issues within the organization by serving as the spokesperson for ethical issues in the organization.

The management of communication is underscored when considering the influence of social comparison errors in group decision-making contexts. While our focus to this point has been on how social comparison (particularly errors) can influence behavior of individual managers, it is also important to recognize that there are numerous potential negative implications from social comparison (and especially pluralistic ignorance) in groups of managers (i.e., management teams). For example, pluralistic ignorance has been often tied to poor group decision-making. Consider the following scenario: An influential manager in the marketing department announces at the management team meeting his/her support for a course of action for promoting the company's new product, although such a campaign may be controversial (e.g., marketing cigarettes to minorities or lower socioeconomic status individuals). While other management group members may believe individually that the action would be unethical, they may also (mis)perceive that everyone in the management group supports that action. Acting consistently with the perceived group norm, they are likely to announce their support for the proposed campaign. As the process develops, there is an apparent group support for the action that none of the managers (with the possible exception of the manager who supported the course of action in the first place) in the department actually support individually.[18] In this case, problems with social comparison by individual managers led to poor group decision-making and the potentially negative outcomes (in the eyes of general public) for the marketing department.

Executives must seek to manage communication in group decision-making settings such that groups do not fall prey to poor decisions based on pluralistic ignorance. This is done through techniques, such as the nominal group technique, whereby individual group members individually (and privately) develop potential decision outcomes and then share them in a group setting. Prior to engaging in the final group decision, the decision outcomes are evaluated privately. Such a technique allows people to anonymously voice their concerns about group actions. This, when combined with the social comparison error training described above, will promote ethical outcomes of group decision-making.

The Challenge of Social Comparison for Global Managers

We have argued that by understanding and managing social comparison, executives can help to address the problems associated with unethical behavior of managers in their organizations. Unethical behaviors of managers that are based on social comparison are seldom the result of explicit, conscious attempts to harm. As Harvey and his colleagues (Harvey & Novicevic 1999) have pointed out, managerial ignorance of false consensus and pluralistic ignorance may be a significant problem in those organizations that undergo dynamic change. In an attempt to understand an ambiguous situation and unaware of what they do not know, managers examining various referent groups might pick the "wrong" focal group and, unfortunately, engage unconsciously in behavior that is not optimal in terms of ethics. This is consistent with reports made by other researchers, including Bazerman and his colleagues (Bazerman, Loewenstein & Moore 2002), who have argued that unethical action is not always intentionally committed, but can be the result of more implicit biases.

In summary, attention to the dysfunctional social comparisons that might jeopardize the ethical culture of an organization can lead to substantial benefits. Buckley and his colleagues (Buckley et al 1996) have suggested a capability to preserve ethical culture on a sustained basis can lead to a competitive advantage for organizations, as it facilitates greater accountability, and thus may improve firm valuation and performance, owing in part to increased occurrence of organizational citizenship behavior. In contrast, an unethical culture can result in cynicism on the part of employees, destructive political behavior on the part of managers, and may even engender workplace aggression and violence. It has become clear that organizations can benefit from their programs to support ethical behaviors of their managers and employees, and that such benefits eventually far outweigh costs associated with facilitating these behaviors Hosmer 1994).

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