Part One
Descriptive Theory

Chapter One

What Determines Ethical Behavior?

Why is it that certain individuals engage in unethical behavior in the business world, whereas others behave ethically? Several individuals through their unethical actions helped to contribute to the downfall of their firms, with the more classic examples including Jeffrey Skilling, Andrew Fastow, Bernie Ebbers, Nick Leeson, and Bernie Madoff. Jeffrey Skilling, the former Enron Chief Executive Officer, and Andrew Fastow, the former Enron Chief Financial Officer, engaged in practices that clearly deceived shareholders, leading to the bankruptcy of a firm that once topped the quality of management category in *Fortune* magazine's survey of most admired companies.[1] Former WorldCom Chief Executive Officer Bernie Ebbers helped bankrupt a firm that had become the second largest long distance US telecommunications company by improperly reporting $3.8 billion in expenses.[2] Ebbers was sentenced to 25 years in jail for securities fraud, conspiracy, and filing false reports.[3] Ebbers, who apparently once stated that a code of ethics for his firm would be a "colossal waste of time",[4] tried to defend himself by claiming he "had no idea what was going on."[5] Nick Leeson, unbeknownst to his superiors and while sitting in the Singapore branch office, bet the entire equity of Barings Bank on the Japanese Nikkei stock index leading to the 233-year-old bank's collapse.[6] Bernie Madoff, the founder of Bernard L. Madoff Investment Securities, stole billions from his clients through a fraudulent Ponzi scheme, which became the largest financial scandal of all time. Madoff was sentenced to 150 years in prison.[7]

Other high-profile individuals also caused significant harm to others or reputational damage to their firms through their unethical activity. Jérôme Kerviel brought his French bank Société Générale to the brink of financial collapse through covert trading leading to billions in losses.[8] Raj Rajaratnam, who once had an estimated net worth of over $1 billion, helped orchestrate one of the

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largest insider trading scandals in Wall Street history and was sentenced to 11 years in prison.[9] Former UBS and Citigroup trader Tom Hayes was sentenced to 14 years in prison after being found guilty of conspiracy to manipulate the benchmark Libor rate. As the UK-based "ringmaster" of a global network, Hayes would apparently bully, bribe, and reward other traders and brokers for their help in skewing the Libor rate, used to price more than $350 trillion of financial contracts from credit cards to mortgages.[10] Former CEO Martin Shkreli of Turing Pharmaceuticals, after being criticized for raising the price of a single pill of a drug used to treat HIV patients from $13.50 to $750, was later arrested for securities fraud.[11]

But it's not just white collar crime that involves unethical activity. Employees call in sick even when they are healthy, use employee discounts to buy clothes for their friends, steal supplies from the office supply cabinet, and overly embellish their skills and qualifications during job interviews. Managers accept expensive gifts and entertainment from suppliers and abuse business expense accounts. Executives hire relatives or friends for positions even when there are more qualified candidates. In order to win contracts, salespeople promise potential customers that their product specification demands and deadlines will be met, despite knowledge that this will not take place. Why does all of this misconduct take place? Are all of these individuals just "bad apples"? Doesn't each of these corporate agents realize that what they are doing is wrong? And why do people engage in unethical behavior even when they realize it is clearly wrong to do so?

To address these questions, let's start by thinking about our own assumptions as to why unethical activity takes place. For example, when you read in the news about managers or employees who have engaged in misconduct, such as bribery, fraud, or insider trading, what are your initial assumptions? Do you assume that the primary reason for the misconduct is because of the person's weak moral character, in other words, their level of greediness versus possessing stronger moral values? Or do you believe that the situational context is equally important to predicting ethical or unethical behavior? Does the decision maker's perceived personal financial situation, the lack of sanctions, or the opportunity to engage in the misconduct without getting caught mainly drive their actions? And if the situational context is most important, does this mean that different people with varying degrees of moral character will tend to act the same way when faced with the same situational context?

Rather than focusing on only one reason or the other, this chapter assumes that both *individual* and *situational* reasons are equally important when it comes to explaining ethical decision making.[12] To explain this "person–situation" approach, we will first explore the impact of *individual* moral character, followed by the *situational* context including the particular issue, organizational factors, as well as personal constraints that drive behavior. Let's now begin by taking a closer look at the importance of an individual's *moral character* on ethical decision making.

The "Good or Bad Apple" Approach to Ethical Decision Making

While there are a number of possible explanations for unethical behavior, one possible starting point is to accept that there are a number of people, including those individuals mentioned above, who unfortunately based on who they are, tend to act unethically, or are more likely to be influenced by their circumstances to act unethically. Others are more likely to act ethically based on their individual ethical predisposition. In other words, we need to take into account the "bad" or "good" apples, or the bad features of otherwise good apples, as playing an important role in the ethical decision-making process.[13]

So how do we explain what makes someone a "good" versus a "bad" apple? While not always sufficiently emphasized, the reason that best explains why different individuals act differently in terms of their ethical behavior when faced with the same set of circumstances, is the person's *moral character*.[14] The moral character approach to ethical decision making and behavior has been around for thousands of years, and is based on the writings of Greek philosopher Aristotle who believed that what counts most is not our actions, but who we ought to be as a person in terms of the nature of our character and the virtues we possess.[15] Aristotle suggested that through training or repetition, we can acquire virtues and our virtuous activity will then become habitual. In other words, for Aristotle, the moral ideal is a person who naturally does the right thing.[16]

While there are several possible definitions of moral character, for our purposes *moral character* can be broadly defined as follows:

> Moral character: *the capability to not only avoid acting inappropriately when facing a moral temptation situation, but to be able to engage in the proper resolution of ethical dilemmas, and to ultimately have the commitment and motivation to naturally engage in ethical behavior*.

Individuals like Jeffrey Skilling, Andrew Fastow, Bernie Ebbers, Nick Leeson, Bernie Madoff, Jérôme Kerviel, Raj Rajaratnam, and Tom Hayes all appear to have possessed weak moral character. On the other hand, those executives, managers, and employees who consistently do the "right thing" despite the possible ramifications to themselves, tend to possess strong moral character.

Let's now try to understand what moral character more specifically consists of in relation to ethical decision making.

There are two interrelated but distinct *dimensions* to our *moral character*: (i) our *capability* to determine morally right from wrong; and (ii) our level of *commitment* to consistently behave ethically according to our determination of the morally right course of action. Each of the two basic dimensions to moral character has three elements as follows:

First dimension of moral character – *capability* (the ability to properly determine morally right from wrong)

(i) Moral maturity
(ii) Moral value system
(iii) Moral competence

Second dimension of moral character – *commitment* (the motivation to consistently do what we know or determine to be morally right)

(i) Moral identity
(ii) Moral willpower
(iii) Moral courage

In other words, our moral character is based not only on our capability to recognize ethical situations and reach appropriate moral judgments, but the extent to which we are committed and motivated to act upon those moral judgments even when faced with adversity or pressures to act otherwise. Figure 1.1 uses the metaphor of an apple tree (with both good and bad apples) and its root system to depict how moral character is developed and sustained, along with the various situational pressures and incentives that can challenge a person's moral character (described further later) similar to the environmental forces and pressures that can affect the growth and quality of the apples growing on a tree (e.g., insects, pesticides, rain, or wind). We will now explore the different dimensions and elements of moral character in more detail.

Moral character – capability

The first dimension of *moral character* is a person's *capability* to determine morally right from wrong based on their (i) level of *moral maturity*, (ii) current *moral value system*, and (iii) level of *moral competence.* Let's now examine each of the first three elements of *moral character*.

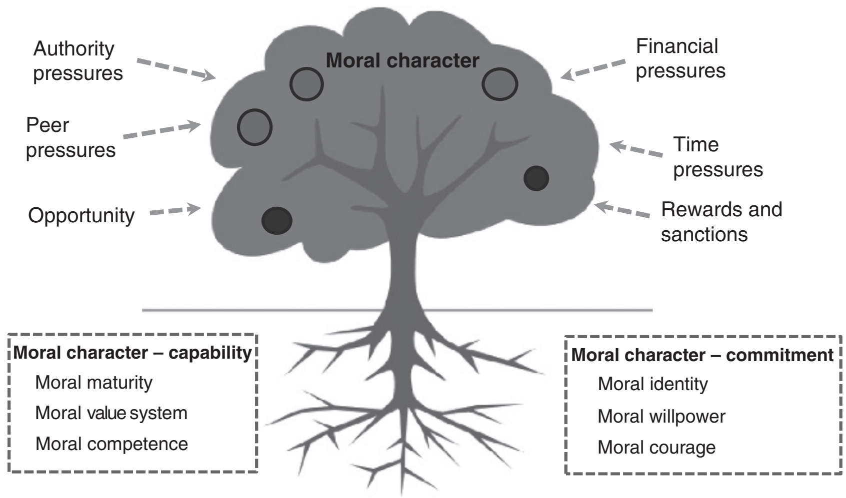

Figure 1.1 The root system of moral character.

Moral maturity

The first element of moral character is our level of *moral maturity*[17] which can be defined as follows:

> Moral maturity: *the stage of moral development by which a person determines morally right from wrong.*[18]

The primary contributor to cognitive moral development theory is moral psychologist Lawrence Kohlberg[19] who suggested that all human beings move through a series of stages of moral development from early childhood through to adulthood based on training or their interactions with others throughout their lives.[20] To come to this conclusion, Kohlberg and his colleagues used a series of ethical dilemmas to establish a person's stage of moral development. Possibly the most famous of the dilemmas Kohlberg used is known as the "Heinz Dilemma." It consists of the following:

> A woman was near death from a special kind of cancer. There was one drug that the doctors thought might save her. It was a form of radium that a druggist in the same town had recently discovered. The drug was expensive to make, but the druggist was charging ten times what the drug cost him to produce. He paid $200 for the radium and charged $2,000 for a small dose of the drug. The sick woman's husband, Heinz, went to everyone he knew to borrow the money, but he could only get together about $1,000 which is half of what it cost. He told the druggist that his wife was dying and asked him to sell it cheaper or let him pay

> later. But the druggist said: "No, I discovered the drug and I'm going to make money from it." So Heinz got desperate and broke into the man's store to steal the drug for his wife. Should Heinz have broken into the laboratory to steal the drug for his wife? Why or why not?[21]

Try to decide what you would do if you were Heinz, and why. Would you steal the drug? For Kohlberg, it was not important whether the respondents in his experiments believed that Heinz should or should not steal the drug, but their moral reasoning process and the reasons why they came to their moral judgment. Based on his research findings, Kohlberg proposed three general levels of cognitive moral development each with two stages:[22]

I. The *pre-conventional* level with a focus on *oneself:*
   - Stage one (punishment or sanctions): the *punishment and obedience* orientation. The consequences of an action determine its goodness or badness. *Example*: I decide not to engage in insider trading because I might end up in jail.
   - Stage two (self-interest): the *instrumental* orientation. Right action is based on satisfying one's own needs and occasionally the needs of others. *Example*: I decide to take the kickback from a supplier because it benefits me.

II. The *conventional* level with a focus on others such as family, group, or nation:
   - Stage three (referent others): The *interpersonal concordance or "good boy – nice girl"* orientation. Good behavior is that which pleases or helps others and is approved by them. Intention (he or she "means well") becomes important at this stage. *Example*: I sell the firm's services to clients in an overly aggressive manner in order to conform to my work group's sales expectations.
   - Stage four (law): the *law* and *order* orientation. Right behavior consists of doing one's duty, respecting authority, following fixed rules, and maintaining social order. *Example*: I pay custom duties simply because it is legally required even when I could get away with not paying.

III. The *post-conventional* (autonomous) level with a focus on all of *humankind:*
   - Stage five (social contract): the *social-contract legalistic* orientation. Right action is based on individual rights and standards which have been agreed upon by society. Society will agree there are times when laws/rules should be changed based on social utility. *Example*: I do not report a colleague for stealing because physical abuse by the police authorities in that country is taking place.

- Stage six (ethical principles): the *universal-ethical-principle* orientation. What is right is based on ethical principles such as justice, human rights, or social welfare. *Example*: I insist the company voluntarily recalls a potentially dangerous product despite the cost in order to avoid harming consumers.

So which stage or stages of moral development do you fall into? Did you reason that Heinz should steal (or not steal) based on the potential of going to jail (stage one) or because it was in Heinz's self-interest to keep his wife alive (stage two)? Was your decision based on expectations of Heinz's friends or relatives or his wife's friends or relatives (stage three) or simply because it was against the law to steal (stage four)? Did you believe it was okay to steal because under the circumstances society would understand and forgive Heinz for breaking the law (stage five)? Or did you believe it was okay for Heinz to steal because you considered human life more valuable than property rights meaning Heinz should steal even for a stranger (stage six)? Of note, Kohlberg believed that most adults end up reaching stages three or four of moral development, with only a small percentage ending up reaching stages five and six.

Kohlberg's theory of moral development, despite facing several criticisms,[23] has been given prominence as part of the *moral judgment* stage of several ethical decision-making models.[24] The presumption of Kohlberg is that a person with a higher level of moral development or moral maturity tends to engage in a higher stage of moral reasoning leading to more ethical behavior. In other words, a person with a high level of moral maturity bases their moral judgments on a set of moral values or principles *before* concerns over possible sanctions, their own self-interest, the views or norms of others, or just the legal system.

Moral value system

The second element of the capability dimension of our *moral character* is our current *moral value system* which can be defined as follows:

> Moral value system: *the framework, approaches, or theories that guide our ethical choices and behavior*.[25]

This dimension of moral character overlaps with and provides the content of Kohlberg's fifth and sixth stages of moral development (the autonomy level) for each individual. A person's moral value system forms the basis for their moral character and helps answer the question "Which moral or ethical values or principles, if any, do you generally possess and rely upon to make decisions at a given point in time?"[26] A person with a strong moral value system can be distinguished from those who merely rely on external cues (Kohlberg's first four stages of moral development) for moral guidance (e.g., authority, rewards, norms, law). For example, a person with a strong moral value system would believe that moral values such as honesty, promise-keeping, loyalty, responsibility, respect, caring, and fairness should always be part of their decision-making process and should take priority even if there is a conflict with their self-interest in deciding what is right or wrong.[27]

There are a series of other similar concepts that are related to a person's *moral value system*. For example, *ethical predisposition* refers to the cognitive frameworks that people prefer to use in moral decision making.[28] Similarly, e*thical ideology*[29] refers to an integrated system of values, standards, beliefs, and self-assessments that define a person's orientation toward matters of right and wrong.[30] Others refer to *personal value orientations*[31] or *philosophy/value orientations*[32] that we each possess. These orientations typically distinguish individuals as being either *utilitarian* by basing their decisions on consequences, or *formalists* by basing their decisions on duties, rules, or obligations.[33] All of these related concepts (ethical predispositions, ethical ideologies, or value orientations) converge together in referring to our current *moral value system* that we carry with us on a day-to-day basis and which then makes an impact on the sorts of moral judgments we make.

Moral competence

The third element of moral character is a person's level of *moral competence*, which can be defined as follows:

Moral competence: *the cognitive capability of a person based on their ethical knowledge and experience to resolve ethical dilemmas using sound critical reasoning skills*.[34]

While a person's *moral value system* might be considered the "fuel" of the moral reasoning process, a person's *moral competence* is the "engine" that allows us to process complex or challenging moral situations.[35] Those who possess strong levels of moral competence tend to be able to judge situations as right or wrong rather than remaining unclear or undecided over what the right action consists of. Those with strong moral competence also tend to possess a higher level of *moral sensitivity* or awareness of ethical situations, possibly due to ethics training they have received or due to reflection and learning from past ethical situations they have encountered.[36] For example, business ethics professors and ethics officers of organizations would presumably possess higher levels of moral competence in terms of their moral reasoning skills and heightened ethical awareness, although this would not necessarily translate into being more ethical in terms of behavior.[37]

The following example might help demonstrate strong *moral competence*. A 19-year-old manager of a Dairy Queen fast food outlet, Joey Prusak, witnessed a blind customer drop $20 on the floor while waiting in line. He saw another female customer pick up the money and immediately put it into her purse. When Prusak confronted the female customer, she said the money was hers. Prusak asked the female customer to leave the store, and then proceeded to give the blind customer $20 from his own pocket. Prusak's response later was as follows: "I was just doing what I thought was right … I did it without even really thinking about it … Ninety-nine out of 100 people would've done the same thing as me." Another customer who had witnessed everything wrote a letter to the store praising Prusak, which was then posted on the internet, and soon went viral.[38]

How should we understand Prusak's actions? It's not clear if other managers would have acted the same way. Why did he do this? One reason may simply be his level of *moral competence*. Based on his level of moral competence, along with his level of *moral maturity* and *core moral value system*, Prusak seems to have had the *capability* to immediately determine the ethically appropriate response to this situation.[39]

Moral character – commitment

Moral character, however, also includes not just our *capability* to reach proper moral judgments, but the willingness or motivation we have to consistently follow through on our moral judgments.[40] This can be referred to as the *commitment* dimension to our moral character, which includes the next three interrelated elements: (iv) *moral identity*; (v) *moral willpower*; and (vi) *moral courage.* Let's take a look at these three additional elements of moral character.

Moral identity

The fourth element of moral character (and the first element of the commitment dimension of moral character) is a person's knowledge about themselves as a moral actor, referred to as a person's *moral identity*[41] which can be defined as follows:

> Moral identity: *a mental representation of a person's moral character that is held both internally as well as projected to others*.[42]

Moral identity involves asking questions like: "What do I stand for?"; "What are my core beliefs?"; "Am I a moral person?"; and "How well do I live up to my core moral values?"[43] People can differ in the degree to which they experience moral identity in terms of how they define themselves. In general, those individuals with a strong *moral identity* possess a reliable *moral compass*, whereby their "true north" consistently defines and directs the person towards ethically appropriate behavior.[44] People with a strong moral identity also tend to have a strong *moral conscience*, and are able to anticipate feelings of *guilt* when they do not intend to act in a manner that supports and maintains their sense of moral identity. When this happens, they are more likely to *self-regulate* themselves in order to remain consistent with their understanding of what it means to be a moral person.[45] In other words, when a person's actions or intended actions are not in alignment with their perceived moral identity, they can experience *mental stress*, creating a desire to rectify the misalignment.

The Hollywood movie *Jerry Maguire* has a classic scene at the beginning that epitomizes the concept of moral identity. When Jerry (played by Tom Cruise), as a sports agent, realizes that what he is doing and how he is treating his clients no longer corresponds with his sense of moral identity, he takes drastic steps. Jerry asks himself "Who had I become? Just another shark in a suit?" We can now also each ask ourselves a similar question: do we believe we have a strong moral identity, and do we try to live up to it on a constant basis?

Moral willpower

Moral willpower is the fifth element of moral character which overlaps with moral identity and can be defined as follows:

> Moral willpower: *the motivation to act in accordance with our current moral value system*.[46]

Having the moral willpower to act on our moral judgments is not always easy. Moral willpower is required in order to sufficiently self-sanction or engage in self-control if we are to overcome and survive *moral temptation* situations with our *moral identities* remaining intact.[47] Anyone who has attempted to go on a diet when they love eating food or stop smoking when they are addicted to cigarettes understands the meaning and importance of willpower. You need not only the goal but the willpower to overcome the physical and mental desire to be able to avoid eating ice cream or smoking cigarettes, especially when they are readily available. When the judge sentenced former trader Tom Hayes for manipulating the Libor rate, he stated: "You succumbed to temptation because you could."[48]

Possessing *moral willpower* means overcoming situations that involve the possibility of personal gain or satisfying our "wants" when there are ethical implications in doing so. Like the muscles in our bodies, our *moral willpower* can be depleted following heavy testing or strengthened over time.[49] When our moral character is weak or has been placed under too much stress, we can more easily reach an *ethical tipping point* or *personal ethical threshold* and *morally compromise* our moral value system leading to unethical behavior.[50] In other words, we have the potential to become more susceptible to various external authority or peer pressures to act unethically. This can happen for example when our managers are putting pressure on us to unfairly take advantage of customers, or when our colleagues are encouraging us to join them in their unethical activity, such as padding expense accounts.

As an example related to moral willpower, I have heard from a number of employees who have faced the moral temptation situation where they can take a look at what they know to be highly useful confidential information.[51] The information could be of great value to themselves in their positions, as well as to their firms. Competitive information, for example, could have been accidentally sent by a competitor to you or accidentally left behind by a client (e.g., a competitor's bid) following a meeting. The expectation is that no one will know or realize that you have looked at the confidential information. What helps explain why one employee succumbs to the moral temptation and will look at the information, while another employee won't? The answer appears to be the *moral willpower* component of a person's moral character.

Moral courage

The sixth and final element of moral character is *moral courage* which can be defined as follows:

> Moral courage: *the ability to act ethically or to resist pressures to act unethically even when we are aware that there is a danger to ourselves in doing so*.[52]

Moral courage involves the question "To what extent am I prepared to stand up for my beliefs?" *Moral courage* determines whether we will act in ways that feel uncomfortable or will potentially harm our own interests when we know it is the right thing to do. Moral courage is often generated only when we feel a sense of *moral responsibility* to take ethical action in a given situation, even when support is not readily available from our peers or organizational leaders. This sense of psychological responsibility or moral "ownership" can be felt over the ethical nature of our own actions, those of our colleagues, or the actions of our organizations.[53]

Moral courage leading to action may be more likely when we believe we have the capability to address a specific ethical issue.[54] In a business organizational context, the strength of our moral character often dictates the extent to which we are prepared to challenge decision making by raising ethical concerns, report ethical misconduct, or report bad news or mistakes to our managers. Moral courage can also involve trying to protect colleagues who are being abused or harassed, or customers or clients who might be harmed, despite the risks placed on us. Whistleblowers like Jeffrey Wigand of Brown & Williamson Tobacco and Sherron Watkins of Enron (discussed further in Chapter 5), who were aware that by reporting misconduct internally within the firm they were putting themselves and their families at great risk, appear to demonstrate strong moral courage. If we have sufficiently strong *moral courage*, we are more committed to keeping our *moral identity* intact, and are prepared to push back and face any adverse consequences as a result.

One example related to moral courage arises from the dilemma faced by the engineers and managers of the company that provided the booster rockets for NASA's space shuttle *Challenger*. Morton Thiokol engineer Roger Boisjoly was aware of the safety dangers of launching the space shuttle in cold temperatures. Boisjoly did initially demonstrate moral courage by trying to convince his managers and NASA to delay the launch, but was apparently told to put on his "manager's hat" instead of his "engineer's hat."[55] It may be that despite a strong set of *moral values*, insufficient *moral courage* prevented Boisjoly as well as others from going outside the chain of command to try to stop the launch of the shuttle which might have prevented the deaths of all seven crew members following an explosion shortly after the shuttle's launch.[56] Examples like this make it clear that a strong moral character includes not only the capability to determine morally right from wrong, but the commitment and moral courage to act as well.

Strong versus weak moral character – examples

As a review, it might be helpful to look at another example of an employee who appears to possess strong moral character. A lifeguard at a Florida beach, Tomas Lopez, received an emergency call. Lopez had to decide whether to leave his lifeguard station to assist a swimmer who was swimming on an unpatrolled neighboring beach. The other beach had signs indicating that swimmers swam at their own risk. Instead of trying to help save the swimmer in such a situation, Lopez was, according to his firm's policy, supposed to call "911" and hope emergency staff arrived in time. Lopez was aware that he could be fired for breaking his company's rules. If you were Lopez, would you violate company policy and leave your station to try to save the swimmer, or just call 911 as you have been instructed to do?

Fortunately, the swimmer was saved in part by Lopez who left his post. But despite Lopez's beach continuing to be patrolled by other lifeguards, his actions led to him being fired by his company, since one of his employment obligations was to never leave his assigned post due to liability concerns. "I have no doubts I did the right thing," Lopez said afterwards. "I believe I did what was right, and that if someone needs help you're going to go help them, regardless if you're a lifeguard or not." In the end, the lifeguard management company realized it had made a mistake firing Lopez and offered him his job back, which Lopez declined.[57] This might be considered a case of strong moral character in terms of both *capability* and *commitment* leading to ethical action by Lopez, regardless of the potential for getting fired.

Not everyone demonstrates strong moral character however. In another case, over 100 student applicants figured out how to hack into a website showing their application status at several top US business schools. After discovering that this was taking place, several schools rejected their applications. The letter written by Harvard's Dean summarized his view that the students by hacking had demonstrated weak moral character. Here is the Dean's letter to the students (emphasis added):[58]

> I would like to have the last word on Harvard Business School's policy regarding applicants who hacked into the ApplyYourself, Inc., Web site containing confidential admissions information. This behavior is unethical at best – a serious breach of trust that cannot be countered by rationalization. Any applicant found to have done so will not be admitted to this School. Our mission is to educate principled leaders who make a difference in the world. To achieve that, *a person must have many skills and qualities, including the highest standards of integrity, sound judgment, and a strong moral compass* – an intuitive sense of what is right and wrong. Those who have hacked into this Web site have failed to pass that test. Kim B. Clark, Dean, Harvard Business School, Boston, Massachusetts

Weak moral character, especially weak *moral competence* and weak *moral willpower*, appears to have played a direct role in the students' lack of moral awareness or inability to self-regulate their actions. In terms of moral awareness, there were a number of students who indicated in online discussions afterwards that "they failed to see the ethical issue presented." There were even some students who thought the hacking students should be praised. One commented online: "Exploiting weaknesses is what good business is all about. Why would they ding you?"[59]

So what leads to a particular person possessing strong moral character in terms of their *capability* and *commitment* to engage in proper moral reasoning, judgment, and behavior? Almost all theoretical ethical decision-making models suggest that there is a set of *individual-based factors* such as demographic variables, psychological or personality variables,[60] personal values,[61] or personal experiences[62] that influence or might relate to the ethical make-up or predisposition of a particular person. To understand this better, Appendix A summarizes much of the key empirical research that examines the key individual *demographic* (e.g., gender, age, nationality, education, work experience, or religiosity) and *personality* or *psychological* factors that might influence a person's *moral character* which then potentially affects ethical decision making. Unfortunately, the research findings are quite mixed, and it can therefore quickly get very confusing to understand exactly which factors or variables might actually play a role and to what extent.[63] It may take some time before we fully understand the real underlying factors leading to strong or weak moral character, but regardless of how moral character develops, it clearly plays a key role in determining whether ethical or unethical behavior takes place.

The Situational Approach to Ethical Decision Making

We have now determined that being a "good" or "bad" apple, or a person with a strong or weak moral character is the critical starting point for predicting ethical behavior. The presumption is that if you put a person with strong moral character in a moral temptation situation alongside an individual with weak moral character, the person with the strong moral character will more likely tend to behave ethically. As a simple example, if someone finds a lost wallet with cash in it, whether they try to return it to the owner or simply keep the money will depend to a large extent on their moral character.[64] So why do good apples sometimes behave unethically?

One important reason is the *situation* they are facing or currently experiencing.[65] In fact, all dominant ethical decision-making models refer to situational or organizational factors that can impact the decision-making process.[66] Building on these past models, the situational context should be comprised of three interrelated components: (i) the *issue*; (ii) the *organizational environment*; and (iii) the *personal context*. I will now discuss each of these three components of the situational context.

Issue

With respect to the first component, rather than focusing on the good or bad "apples" (i.e., individual characteristics) or the good or bad "barrels" (i.e., organizational environment), some have argued that the *issue* itself (e.g., the worm?) should be the focus of ethical decision making.[67] As a factor, the issue variable would consist of three dimensions: (i) issue intensity; (ii) issue importance; and (iii) issue complexity. Let's now consider each of the dimensions of the issue-related variable.

Issue intensity

One approach to ethical decision making suggests that the *moral intensity* of an issue can impact each stage of the ethical decision-making process.[68] Issue intensity is defined as follows:

> Issue intensity: *the degree to which consequences, social norms, proximity, or deontological/fairness considerations affect the moral imperative in a situation*.

According to this view, the moral intensity of an ethical issue incorporates six components:

(1) Magnitude of consequences (total harm/benefit caused);
(2) Social consensus (degree of agreement that option is good or evil);
(3) Probability of effect (likelihood action will cause expected benefit/harm);
(4) Temporal immediacy (the length of time between the present and the consequences of the moral act);
(5) Proximity of closeness (the feeling of nearness that the moral agent has for the victims or beneficiaries); and
(6) Concentration of effect (the inverse function of the number of people affected by an act of given magnitude).[69]

For example, if a manager must decide whether to sell a defective unsafe product to a consumer, this would relate to several issue intensity criteria: *magnitude of consequences* (total harm caused by the unsafe product), *probability of effect* (chances of the consumer being harmed), and *concentration of effect* (large number of people harmed). If the product is expected to cause harm immediately, this would relate to the criterion of *temporal immediacy*. If the manager would be selling the unsafe product to immediate family members or friends, this would relate to the criterion of *proximity of closeness*. The criterion of *social consensus* would apply in terms of the broader community disapproving of the sale of such a product. Based on the criteria being met, *moral intensity* would be strong. The basic idea is that if I face a dilemma where someone could be seriously injured, especially a family member, or if a large number of people would be seriously injured in the near future, or if many people disapprove of a particular action, I would tend to be more aware that I face an issue with moral implications.[70]

In addition to consequences (either positive or negative), social norms, and the proximity or "closeness" the agent has to those affected, the characteristics of moral intensity should also include additional duty-based and fairness dimensions. In other words, the moral intensity of an issue would increase if an individual is facing a situation which might require violating or respecting rules (e.g., codes), laws, or the rights of others, or relate to fairness. This broader definition of moral intensity is in accordance with researchers who have recognized that moral intensity should include a broader range of ethical characteristics.[71] A higher level of moral intensity would then presumably increase the likelihood of moral awareness, as demonstrated in a number of research studies.[72]

Issue importance

Issue importance is another factor that can impact ethical decision making. Issue importance is defined as follows:

> Issue importance: *the perceived personal importance or relevance of an ethical issue to an individual*.[73]

The reason for this approach is that any objective determination of issue intensity would be irrelevant unless the decision maker himself or herself perceived the issue as being of importance.[74] It seems to make sense that issues that the decision maker, for whatever reason, believes are important to him or her, would more likely impact the ethical decision-making process. The reasons for *issue importance* may be based on the person's *moral character* including his or her upbringing or past experiences. I might for example see an issue involving discrimination or harassment of others as much more important than someone else due to my past personal experience of being discriminated against or harassed. Issue importance might also be shaped by the firm's corporate policies or reward/sanction systems and the issues the firm focuses on. If issue importance to the decision maker is not considered, the ethical implications of the issue might be ignored altogether leading to a lack of moral awareness.[75]

Issue complexity

Another dimension of an issue that appears to have received little attention but potentially has important implications is the extent to which an issue is perceived to be complex. *Issue complexity* is defined as follows:

> Issue complexity: *the degree to which issues are perceived to be hard to understand or difficult to resolve*.

Issue complexity can involve the perceived degree of conflict among competing moral standards or multiple stakeholder claims. More complex issues would require a higher degree of cognitive skill and effort to resolve, and require greater "cognitive expenditure",[76] which could affect our motivation to even attempt to resolve the dilemma or the process by which moral judgment is reached. It may be that a very complex issue lessens the chance that we will be morally aware of the issue,[77] or requires a more reflective reasoning process and a higher level of *moral competence* to resolve, as opposed to less complex issues whereby intuition or gut instinct may be sufficient.[78] For example, deciding whether to downsize and who to let go would represent a more complex ethical issue due to the impact on multiple stakeholders, such as the owners, the employees, and the employees' families. The decision would become even more complex if friendships might be jeopardized.

Issue complexity might also include other components such as the degree to which there are complicated facts involved or multiple factual assumptions that need to be made due to a lack of relevant information available. Such information may be necessary in order to understand properly the ramifications of a particular issue and its potential future harm to oneself or others.[79] As a result, regardless of its intensity or importance, the mere perceived complexity of the issue or dilemma could possibly cause us to ignore facing and addressing the issue altogether, leading to a type of "moral paralysis." For example, deciding whether to blow the whistle on firm misconduct can be a highly complex and difficult decision with ramifications to multiple parties, which might then prevent coming to any judgment on the ethically appropriate action to take.[80] Due to its potential impact, perceived *issue complexity* is also included in addition to *issue intensity* and *issue importance* as part of the issue-related situational construct.

Organizational environment

The second component of the situational context is the organizational environment or the "barrels" (or "baskets") in which employees are situated. One potentially useful way to denote organizational factors is to collectively refer to them as representing the *ethical corporate culture* of the organization.[81] *Ethical corporate culture*, as the overarching concept for all organizational environmental variables, is defined as follows:

> Ethical corporate culture: *the organizational formal and informal elements that contribute to an organization's ethical effectiveness*.[82]

Other ways of collectively referring to the various organizational elements is to refer to them as the firm's *ethical infrastructure*[83] or *ethical context*.[84] The ethical corporate culture would include several *formal* and *informal* systems such as communication, surveillance, and sanctioning systems. The key component of a *communication system* is the firm's *code of conduct* or *ethics*. A code of ethics can be defined as *a written, distinct, and formal document which consists of moral standards used to guide employee or corporate behavior*.[85] The majority of studies support the notion that codes of ethics are positively related to ethical decision making.[86] Other elements of a communication system would include firm mission statements, performance standards, and compliance or ethics training programs.

Surveillance systems are also important, such as performance appraisals and reporting hotlines. The most important element, however, may be sanctioning systems. A *sanctioning system* would include rewards and punishments such as evaluations, promotions, salary, and bonuses. Research has consistently found that rewards and sanctions impact ethical decision making.[87] Both the formal and informal systems form part of the *organizational climate* that supports the firm's ethical infrastructure.[88] A substantial body of empirical research has examined the potential impact the various components of an ethical corporate culture can have on ethical decision making by individuals within organizations.[89] The underlying assumption is that firms with a strong ethical culture and climate generally lead to more employees becoming aware of ethical issues and the importance of behaving in what would be considered by the company to be an ethical manner.[90] The various ways an ethical culture of a firm can be developed and sustained will be discussed in much more detail in Chapter 6.

There are other factors that should also be included as part of the organizational environment. This was made evident in the case of Enron. Enron had all the formal elements of a comprehensive ethics program, including a detailed 64-page code of ethics, ethics training, and a set of core ethical values. Yet other organizational factors clearly pushed executives and employees to act in an unethical manner. In fact, these other factors may ultimately represent the most significant factors that can influence good people to do some very bad things. For example, the impact of *significant* or *referent others/peers* can lead to one imitating or learning from the behavior of others. There is no question that we tend to imitate the behavior of others, even when it is contrary to our own views.[91] The impact of *authority pressures* such as managers or executives would also be included as part of the ethical corporate culture.[92] I have seen many cases of employees who receive ethically questionable orders from their managers and comply rather than risk the repercussions of disobeying an order. Authority pressures are often expressed in the form of setting unreasonable sales objectives or overly aggressive financial targets that can only be attained by subordinates crossing an ethical line.

The *opportunity* or the occurrence of circumstances that permit ethical/unethical behavior would also be included as a component of an organization's ethical culture.[93] If there is no perceived opportunity to engage in the desired improper behavior, then this alone could prevent unethical behavior from taking place.[94] Other organizational factors have been examined such as the type of industry and the organization's size, but neither seems overall to have much of an impact on ethical decision making.[95] There are a number of other miscellaneous organizational variables that have received insufficient research treatment to date to support any generalized conclusions on whether they impact ethical decision making, but future research may lead to new discoveries.[96]

Personal context

Our *personal context* is the final component of the situational context. I believe this situational component needs to be emphasized much more as a major factor that impacts ethical decision making and behavior, and can influence a lot of seemingly "good" people to do some very "bad" things. Personal context is defined as follows:

> Personal context: *the individual's current situation which can lead to "ethical vulnerability" due to "personal need for gain" or time/financial constraints*.

The key variable of an individual's personal context is what I refer to as our perceived *need for personal gain*. I define "need for personal gain" as the current perceived desire to either improve or sustain our financial situation, status, career, or compensation. The need for personal gain is primarily based on the perceived financial situation of an individual. A strong need for personal gain can result from living beyond one's means, high debt, financial losses, or unexpected financial needs.[97]

The *need for personal gain* needs to be distinguished with a person's *moral character*. Some people are inherently unselfish or selfless, while some people are inherently greedy, meaning they have an insatiable desire for wealth, power, or ego that can never be satisfied, often leading to unethical or illegal behavior. The need for personal gain is a temporary state of affairs, whereas our moral character generally remains stable for a longer period of time. Quite often unethical behavior can be explained simply because of individuals who despite having a strong moral character believe they are in a dire financial situation with dependents to take care of. The variable of *perceived need for gain*, which would be based primarily on our self-interest, does not yet appear to have been proposed in the ethical decision-making literature, but is a critical component in fraud prevention literature. "Financial pressures," in addition to perceived opportunity and rationalization make up the "fraud triangle" that helps explain why most people commit fraud.[98]

Another way of expressing one's "need for personal gain" at any given point in time is what might be referred to as a person's current state of *ethical vulnerability*.[99] Ethical vulnerability means that if we are in a weak financial position, facing significant perceived financial pressures or obligations, with few or non-existent career or job alternatives available, we would presumably be in a much weaker position to resist unethical requests and put our job, promotion, or bonus at risk or be less willing to accept the "personal costs" of taking moral action.[100] In terms of employees that have faced ethical dilemmas at work, it seems that what often impacts their decision on how to act and whether to push back on unethical requests is whether they expect to remain in the job or industry, or require a reference for a future position. It also seems to depend to a large extent on their current family situation, such as being married with young children or with rent or mortgage obligations.[101] When you need your job and have dependents and financial responsibilities, you tend to have much less leeway to take risks on losing your job, even when you know acting a certain way is against your sense of moral identity.

Here's an example of a real dilemma faced by an employee (we'll refer to him as "Adam"), that highlights *ethical vulnerability*. Adam unfortunately lost his job, and during a tough time in the economy had been looking for a new job for over one year. Adam was married, and he and his wife had just had a new baby. Adam's financial situation was becoming extremely difficult, pressures on his marriage were intensifying, and he knew he had to find a job soon. Eventually, an opportunity arose and Adam received an offer to work for a very successful online gambling company. Finally, Adam's financial stress could be alleviated.

There was only one problem, however, but it was a big one. Adam's uncle had become addicted to online poker gambling. It didn't take too long for his uncle to gamble away his life savings and lose the entire equity in his home, leading to a divorce. The devastation of losing everything, including his family, was too much to bear. His uncle unfortunately and tragically committed suicide. Which online gambling site did the uncle use? Coincidentally, his uncle had been gambling on the website of the very same online gambling company from where Adam had finally received an offer, after searching for an entire year. Should Adam work for the online gambling company, which could be seen as contributing to the death of his uncle? What do you think Adam decided to do? When I read Adam's dilemma, I was fairly certain he would have turned it down. But then I realized the potential impact of *ethical vulnerability*. Adam took the job. He was able to convince himself that despite working for this firm, he would do everything he could within the company to make it a more responsible gambling site. It's not clear if Adam was able to do this, but at least he had stabilized his family's financial situation.

Other constraints such as *time pressure* or *limited financial resources* to do what we know to be right can also be considered part of the personal situational context.[102] The impact of *time pressure* on decision making was demonstrated in the famous "Good Samaritan" experiment, whereby seminary students about to give a talk on being a good Samaritan tended not to assist someone in distress when they were in a "high-hurry" condition.[103] Time pressures in an organizational context often arise when authority figures instruct their subordinates to complete a certain project within an unreasonable time frame which creates an incentive to cut ethical corners. In other cases, you might know what the right action to take is, such as properly compensating someone for the injuries you have caused, but do not have the *financial resources* or means to fully implement your moral judgment.

One or more of the situational factors can come into direct conflict with our *moral character* and whether we are able to withstand the pressures we face. These factors or pressures are depicted in Figure 1.1 and represent the "wind" that can cause the apples to fall from the tree or the "insects" that can make apples go rotten.[104] Figure 1.2 depicts each of the components of the situational context construct.

To provide greater clarity, Table 1.1 provides a summary of the definitions of the various constructs influencing ethical decision making.

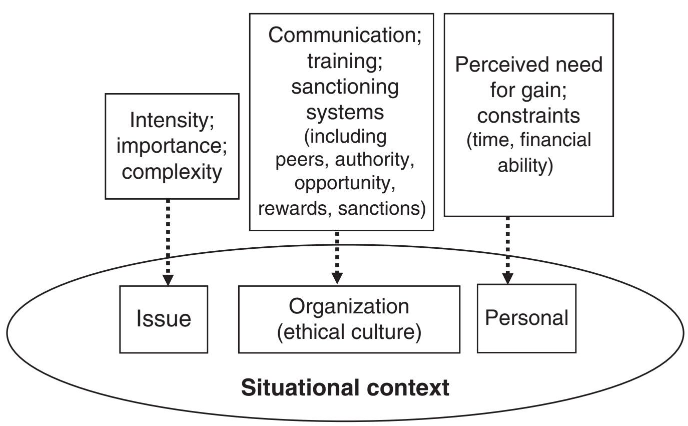

Figure 1.2 Situational context for ethical decision making. *Source*: Schwartz, M.S. 2016. Reproduced with the permission of Springer.

Table 1.1 Individual and situational moderating factors of ethical decision making. *Source*: Schwartz, M.S. 2016. Reproduced with the permission of Springer.

Construct	*Definition*
Individual	
(1) Individual moral character	The ability to avoid moral temptations, engage in the proper resolution of ethical dilemmas, and be motivated to engage in ethical behavior.
(a) Moral character – capability	An individual's ability to determine right from wrong based on their level of *moral maturity*, current *moral value system*, and level of *moral competence*.[105]
(b) Moral character – commitment	The capability to act consistently according to a person's moral character.[106] It is comprised of *moral identity*, *moral willpower*, and *moral courage*.
Situational	
(1) Ethical issue	A situation requiring a freely made choice to be made among alternatives that can positively or negatively impact others.[107]
(a) Issue intensity	The degree to which consequences, social norms, proximity, or deontological/fairness considerations affect the moral imperative in a situation.[108]
(b) Issue importance	The perceived personal relevance of an ethical issue by an individual.[109]
(c) Issue complexity	The perceived degree of difficulty in understanding an issue. Based on perceived conflict among moral standards or stakeholder claims or required factual information or assumptions needed to be made.
(2) Organization's ethical culture	The organizational formal and informal elements that contribute to an organization's ethical effectiveness. This includes formal and informal communication, surveillance, and sanctioning systems.[110]
(3) Personal context	The individual's current situation which can lead to "ethical vulnerability" due to "personal need for gain" or time/financial constraints.[111]

Chapter Summary

We have now reviewed the factors that might influence or moderate the ethical decision-making process. There are two essential sets of constructs or factors that influence decision making: *individual* and *situational*. The first individual-based set of factors relates to the general concept of *moral character*, that is, what sort of ethical individual are you to begin with? Are you generally someone who has strong ethical values, and tends to stick with them even when you are pressured not to do so? Or are you mainly a person who focuses on your self-interest, to the neglect of others? We initially defined moral character as including your *level of moral maturity*, current *moral value system*, and level of *moral competence*. A strong moral character means you have the *capability* to figure out what is the right thing to do. But moral character also includes your *commitment* to behave ethically. If you have a high level of commitment based on a strong *moral identity*, *moral willpower*, and *moral courage*, you are more likely to form an intention to act and behave according to your moral judgment, no matter what the consequences to yourself.

We also discussed *situational* factors affecting ethical decision making which can challenge a person's moral character. The first situational factor involved the *issue* itself. Was this an issue that had strong *moral intensity*? That you perceived as being *important* to you? That wasn't so *complex* that you could actually work through and formulate a resolution? What sort of *organizational factors* were present or lacking? How strong was the ethical culture of the organization? Was there a code that was well communicated and supported by training? Were there rewards and sanctions for behavior, and what sort of opportunity was there to engage in unethical behavior without getting caught? Finally, what was the *personal context*? Were you facing difficult personal financial circumstances, with dependents to take care of, or under time pressure to act?

Understanding how ethical decision making works and the various factors that affect the process including our individual *moral character*, the *issue*, the *organizational environment*, and our *personal situation* are all important. But possibly more important is trying to understand *how* we arrive at ethical decisions. In Chapter 2, we review a comprehensive ethical decision-making theoretical framework, called "Integrated Ethical Decision Making," which helps to explain the ethical decision-making *process*, from initial awareness of an ethical issue, to moral judgment, to forming an intention to act, to actual behavior.

Notes

1. See: CNN, "Enron Fast Facts," April 26, 2015, http://edition.cnn.com/2013/07/02/us/enron-fast-facts/(accessed 29 August 2016).
2. See: Luisa Beltran, "WorldCom Files Largest Bankruptcy Ever," *CNN Money*, July 22, 2002, http://money.cnn.com/2002/07/19/news/worldcom_bankruptcy/ (accessed 29 August 2016).
3. See: Dionne Searcey, Shawn Young, and Kara Scannell, "Ebbers is Sentenced to 25 Years for $11 Billion WorldCom Fraud," *The Wall Street Journal*, July 14, 2005, http://www.wsj.com/articles/SB112126001526184427 (accessed 29 August 2016).

4. See: Schwartz *et al.* (2005, p. 94).
5. See: *Time* website, "Top 10 Crooked CEOs: Bernie Ebbers," http://content.time.com/time/specials/packages/article/0,28804,1903155_1903156_1903277,00.html (accessed 29 August 2016).
6. See: Harry Wallop, "Twenty Years On, Is Nick Leeson Really Sorry for Breaking the Bank?" *The Telegraph*, February 25, 2015, http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11425522/Twenty-years-on-is-Nick-Leeson-really-sorry-for-breaking-the-bank.html (accessed 29 August 2016).
7. See: Diana B. Henriques, "Madoff Is Sentenced to 150 Years for Ponzi Scheme," *The New York Times*, June 29, 2009, http://www.nytimes.com/2009/06/30/business/30madoff.html (accessed 29 August 2016).
8. See: Fiona Walsh and David Gow, "Société Générale Uncovers £3.7Bn Fraud By Rogue Trader," *The Guardian*, January 24, 2008, http://www.theguardian.com/business/2008/jan/24/creditcrunch.banking (accessed 29 August 2016).
9. See: Aaron Smith and Hussein Saddique, "Galleon Manager Rajaratnam Sentenced," *CNN Money*, October 14, 2011, http://money.cnn.com/2011/10/13/news/companies/insider_trading_raj_rajaratnam/ (accessed 29 August 2016).
10. See: Gavin Finch and Liam Vaughan, "Former Libor 'Ringmaster' Hayes Gets 14 years for Libor Rigging," *Bloomberg*, August 3, 2015, http://www.bloomberg.com/news/articles/2015-08-03/former-libor-ringmaster-hayes-guilty-of-manipulating-rates (accessed 29 August 2016).
11. See: Julie Creswell, Stephanie Clifford, and Andrew Pollack, "Drug C.E.O. Martin Shkreli Arrested on Fraud Charges," *The New York Times*, December 17, 2015, http://www.nytimes.com/2015/12/18/business/shkreli-fraud-charges.html (accessed 29 August 2016).
12. This position is similar to those who propose a "person–situation interactionist" model of ethical decision making. See: Treviño (1986). This model is described further in Appendix B.
13. See: Watson *et al.* (2009, p. 12).
14. Somewhat surprisingly, the factor of moral character is lacking in most ethical decision-making models. One researcher for example indicates that the models that are presently available are not sufficient because they do not find that an individual's moral character is integral when it comes to identifying and recognizing ethical dilemmas (Pimental *et al.*, 2010, p. 360). Others concur and suggest that the most powerful factor that determines whether our conduct matches our moral judgment is the "centrality of morality to self," in other words our moral character (Damon and Hart, 1992, p. 455). For these reasons, it should be clear that moral character should be incorporated into any ethical decision-making model, as will be discussed later in Chapter 2.
15. The "virtuous" person for Aristotle chooses the reasonable path or the "mean" between the extremes of various emotions or actions (i.e., vices of "deficiency" or vices of "excess"). See: Velasquez (2012, p. 129). Some of Aristotle's virtues include: courage, generosity, pride, good tempered, truthfulness, wittiness, friendliness, and modesty. See: Aristotle (1968).
16. See: Hartman (1998, p. 548). According to Aristotle, good character is not only doing the right thing, but also having the right desires and emotions: "If you do

the right thing reluctantly, you are not really a person of good character, and virtuous actions may or may not be in your best interests" (see: Hartman, 2008, p. 319).

17. The concept of "moral maturation capacities" is introduced by Hannah *et al.* (2011).
18. Kohlberg (1973); Treviño (1986).
19. Kohlberg (1973).
20. Other ethical dilemmas presented in the experiments included the following: "A boy must decide between obeying his father and keeping money he has rightfully gained and that his father unjustly requests; A girl must decide whether to tell on a sister who used her savings to go to a rock concert instead of clothes for school and lied to her mother about it; A doctor must decide whether to kill a dying patient who is asking for an end to her suffering; A marine captain must decide between ordering a man to go on a fatal mission, enabling him to lead the rest of his men to safety, and sacrificing himself, leaving his men to their own devices." See: Colby and Kohlberg (1987); Monin *et al.* (2007, p. 101).
21. For a more recent societal view on dealing with those who steal food in order to feed their families, see: Jennifer Smith, "Police Going Easy on Mothers Who Steal Food 'Simply to Live'," *Mail Online*, December 30, 2013, http://www.dailymail.co.uk/news/article-2531059/Police-going-easy-mothers-steal-food-simply-live.html (accessed 29 August 2016).
22. See: Kohlberg (1973, p. 632). In later years, Kohlberg indicated that his model only focused on moral reasoning as opposed to the entire ethical decision-making process, and later clarified that it really only focused on justice/fairness issues (see: Rest *et al.*, 1999).
23. Kohlberg's model is not without criticism, especially from Gilligan (1982) who viewed women as going through different stages of moral development. Gilligan also suggested that stage three (referent others, relationships, caring, responsibility for others) and stage four (law) should be reversed for women.
24. For example, see: Rest (1986); Treviño (1986); Hunt and Vitell (1986); Ferrell *et al.* (1989).
25. See: Jackson *et al.* (2013, p. 236).
26. According to Hartman (2008, p. 317): "To have a [moral] character of significant strength is to have values that consistently guide one's actions."
27. Later in Chapter 4 we will discuss further the core ethical values a person with moral character should possess.
28. Brady and Wheeler (1996); Reynolds (2006, p. 234).
29. A person's "ethical ideology" is made up of their "moral personality" and "moral identity." See: McFerran *et al.* (2010, p. 35). Schlenker (2008, p. 1079) suggests that there is a continuum between a "principled ideology" (a person believes moral principles exist and should guide conduct "… regardless of personal consequences or self-serving rationalizations") and "expedient ideology" (a person believes moral principles have flexibility and that deviations for personal gain are justifiable).
30. Schlenker (2008).
31. Weber (1993); Bartlett (2003).

32. See: O'Fallon and Butterfield (2005).
33. Utilitarianism is discussed further in Chapter 4. Others distinguish between different types of *personal moral philosophies*. Highly *relativistic* individuals believe that moral actions depend on the nature of the situation and the individuals involved (Kohlberg's stage three), rather than acting in ways that are consistent with moral principles (Kohlberg's stages five and six). Highly *idealistic* individuals believe that harming others is always avoidable, rather than believing that harming others is sometimes necessary. See: Forsyth (1992, p. 462).
34. See: Morales-Sánchez and Cabello-Medina (2013, p. 717) who argue that "moral competencies," as moral virtues, can facilitate ethical decision-making. Carroll (1987), based on Powers and Vogel (1980), refers to "moral competence" as representing a major element or capacity that is "essential in making moral judgments" (1987, p. 13) and forms "an integral part of managerial competence" (1987, p. 14).
35. See: Hannah *et al.* (2011, pp. 668–670) who refer to additional related functions such as "moral complexity" and "meta-cognitive ability."
36. See: Reynolds (2008); Hannah *et al.* (2011, p. 669).
37. See: Schwitzgebel and Rust (2014).
38. See: Christina Ng, "Warren Buffett Invites Good Deed Dairy Queen Teen to Shareholders Meeting," *ABC News*, September 20, 2013, http://abcnews.go.com/US/warren-buffett-invites-good-deed-dairy-queen-teen/story?id=20320838 (accessed 29 August 2016).
39. See: James Daniel, "Dairy Queen Manager Who Stuck Up For Blind Customer Now Enjoying Fame as He Gets a Congratulatory Call from Warren Buffet and He May Be on Queen Latifah," *Mail Online*, September 20, 2013, http://www.dailymail.co.uk/news/article-2426695/Joey-Prusak-Dairy-Queen-manager-stuck-blind-customer-enjoying-fame.html (accessed 29 August 2016).
40. See: Jackson *et al.* (2013). The concept that comes closest to capturing this consistency is *integrity capacity* (see: Petrick and Quinn, 2000). Integrity capacity can be defined as a person's capability for repeated alignment of their awareness, deliberation, and conduct with their core moral value system (Petrick and Quinn, 2000, p. 4). Another similar concept is that of *ego strength*, which has been defined as a person's strength of conviction or self-regulating skills (Treviño, 1986, p. 609).
41. See: Hannah *et al.* (2011, pp. 669–670). "Moral identity" has been suggested by several theorists as playing an important self-regulatory role in linking moral attitudes to one's behavior. See: Schlenker (2008, p. 1081). See also: Lapsley and Narvaez (2004) for a review of the concept of moral identity.
42. See: McFerrran *et al.* (2010, p. 37).
43. Hannah *et al.* (2011, p. 671).
44. See: Thompson (2010, p. 20).
45. See: Mayer *et al.* (2012, p. 152).
46. Hannah *et al.* (2011).
47. Hannah *et al.* (2011, p. 664) refer to *moral willpower* as "moral conation" which they define as having the "impetus to act."

48. See: BBC News, "Trader Jailed for 14 Years Over Libor Rate-Rigging," August 3, 2015, http://www.bbc.com/news/business-33763628 (accessed 29 August 2016).
49. See: Muraven *et al.* (1999).
50. See: Comer and Vega (2008) for a description of the "Personal Ethical Threshold" construct.
51. Examples such as these are often provided by my MBA students.
52. See: Hannah *et al.* (2011).
53. See: Hannah *et al.* (2011, p. 674).
54. Hannah *et al.* (2011, p. 675) refer to this belief as "moral efficacy."
55. See: Storer Rowley and Michael Tackett, "Shuttle Rocket Maker Cleaning House," *Chicago Tribune*, June 4, 1986, http://articles.chicagotribune.com/1986-06-04/news/8602090327_1_calvin-wiggins-roger-boisjoly-space-booster-program (accessed 29 August 2016). See also: Howard Berkes, "Remembering Roger Boisjoly: He Tried to Stop Shuttle Challenger Launch," *NPR*, http://www.npr.org/sections/thetwo-way/2012/02/06/146490064/remembering-roger-boisjoly-he-tried-to-stop-shuttle-challenger-launch (accessed 29 August 2016).
56. See: Treviño and Nelson (2011, p. 279).
57. See: John Zarrella and Lateef Munglin, "Florida Lifeguard Says He's Been Offered His Job Back," *CNN*, July 6, 2012, http://edition.cnn.com/2012/07/05/us/florida-lifeguard-fired/ (accessed 29 August 2016).
58. See: Linda Rosencrance, "Harvard Rejects Business-School Applicants Who Hacked Site," *Computerworld*, March 8, 2005, http://www.computerworld.com/article/2568748/cybercrime-hacking/harvard-rejects-business-school-applicants-who-hacked-site.html (accessed 29 August 2016).
59. See: Shaw and Barry (2016, p. 84).
60. Treviño (1986).
61. Ferrell and Gresham (1985).
62. Hunt and Vitell (1986).
63. For example, one study found that 119 different variables, many of which might overlap, have been included in one or more of 11 different ethical decision-making theoretical models demonstrating a lack of consistency (see: Torres, 2001).
64. See: Kieran Corcoran, "Would You Pass the Wallet Test? World's Most Honest Cities Revealed After Researchers Dropped Purse Containing £30 To See If It Would Be Returned," *Mail Online*, September 24, 2013, http://www.dailymail.co.uk/news/article-2430530/Helsinki-worlds-honest-city-Lisbon-lost-wallet-test.html (accessed 29 August 2016). The study suggests that there are some cities with residents who are more honest than others.
65. For example, Nohria *et al.* (2015, p. 1, emphasis added) state: "Contrary evidence has been accumulating, indicating the malleability of character and the critical, sometimes decisive role that *situation* – not character – plays in ethical decision making…."
66. Ferrell and Gresham (1985); Hunt and Vitell (1986); Treviño (1986); Bommer *et al.* (1987); Jones (1991).
67. Jones (1991); Weber (1996); Bartlett (2003); Kish-Gephart et al. (2010). See Appendix B for a description of Jones' issue-contingency model.

68. Jones (1991).
69. Jones' (1991) model appears to draw from philosopher Jeremy Bentham's utilitarianism. Bentham's criteria for measuring pleasure or pain (his principle of utility) is divided into the categories of intensity, duration, certainty, proximity, productiveness, purity, and extent. Jones' first component, "magnitude of consequences," is similar to Bentham's overall calculation of net benefit. "Probability of effect" is similar to Bentham's criteria of "certainty or uncertainty." "Concentration of effect" is similar to its "extent"; that is, "… the number of persons to whom it extends; or (in other words) who are affected by it…." See: Bentham (1970).
70. One initial concern with Jones' moral intensity construct is that the dimensions of moral intensity can simply be incorporated into the moral judgment stage of ethical decision making that will be discussed further in Chapter 2. For example, Herndon states (1996, p. 504): "While Jones (1991) adds the concept of moral intensity which is the degree of "badness" of an act; it can be placed in the consequences and behavioral evaluation portions of the synthesis integrated model."
71. As indicated by some researchers, "… other ethical perspectives should also be considered … such as fairness or law breaking where harm was not involved" as part of the moral intensity construct (Butterfield *et al.*, 2000, p. 1010).
72. See: May and Pauli (2002). O'Fallon and Butterfield (2005, p. 398) state: "Although moral intensity is a relatively new construct in the business ethics literature, there seems to be strong support for its influence on the ethical decision-making process. Magnitude of consequences and social consensus represent the most consistent findings." Lehnert *et al.* (2015, p. 205) indicate that there is a "strong consensus on the positive relationship between moral intensity and ethical decision making."
73. Robin *et al.* (1996, p. 17).
74. A number of researchers have shifted the focus on the moral intensity of an issue to the subjective *perceived* importance placed on a particular issue by a particular individual. See: Haines *et al.* (2008); Valentine and Hollingworth (2012); Yu (2015). Singhapakdi *et al.* (1999) and Dedeke (2015) both refer to the related concept of "perceived moral intensity." Robin *et al.* (1996, p. 18) suggest that "perceived issue importance" could be a component of a broader and more complex concept called "moral involvement."
75. Researchers are beginning to pick up on the concern over Jones' (1991) reliance on the objectivity of the existence of issue intensity, rather than the subjective perception of the individual decision maker. For example, Yu (2015, p. 574) suggests that moral intensity "… should include compositions of subjective perception rather than being merely a fact of objective existence," in other words, "… the existence of an ethical issue is appropriately defined according to individuals and the environment because it must be subjectively conscious by an individual … Furthermore, because the identity, position, thinking, resources, and situation of each individual differ, these factors also influence individuals' subjective recognition of [moral intensity]."
76. See: Street *et al.* (2001).

77. Rest (1984, p. 35) recognized issue complexity as a situational factor that can influence the awareness stage of ethical decision making (i.e., "sheer number of elements in the situation …" and the "… complexity in tracing out cause-effect chains").
78. Warren and Smith-Crowe (2008, p. 90) refer to issue complexity in relation to the type of moral judgment (reason versus intuition) that might take place: "… the intuitionists are not seeking judgments from individuals on issues that are new, complex, or have many options."
79. In a similar vein, relevant knowledge on the issue has been suggested as being linked with "… one's ability to engage in effortful cognitive activity" (see: Street *et al.*, 2001, p. 263).
80. De George (2010).
81. Tenbrunsel *et al.* (2003); Treviño *et al.* (2006).
82. Tenbrunsel *et al.* (2003). This is the same definition used by Tenbrunsel *et al.* (2003, p. 286) for *ethical infrastructure* which for our purposes is considered equivalent to *ethical corporate culture*.
83. Tenbrunsel *et al.* (2003, p. 286).
84. See: Valentine *et al.* (2014). The *ethical context* is considered by Valentine *et al.* (2014) to include both the "ethical culture" (Treviño *et al.*, 1998) and the "ethical climate" (Victor and Cullen, 1998) of the organization.
85. See: Schwartz (2001, p. 248).
86. O'Fallon and Butterfield (2005, p. 397). Kaptein and Schwartz (2008, p. 115) state: "… a thorough review of existing literature reveals at least 79 empirical studies that examine the effectiveness of business codes. The results of these studies … are clearly mixed: 35% of the studies have found that codes are effective, 16% have found that the relationship is weak, 33% have found that there is no significant relationship, and 14% have presented mixed results. Only one study has found that business codes could be counterproductive."
87. O'Fallon and Butterfield (2005, p. 398) state: "The impact of rewards and sanctions is clear – rewarding unethical behavior tends to increase the frequency of such behavior, while effective sanctioning systems tend to decrease such behavior."
88. Tenbrunsel *et al.* (2003, p. 286).
89. See: O'Fallon and Butterfield (2005); Craft (2013).
90. See: Ethics Resource Center (2014). O'Fallon and Butterfield (2005, p. 397) find that: "There is increasing support for the notion that ethical climates and cultures exist within organizations. The research generally supports the notion that ethical climates and cultures have a positive influence on ethical decision making." Mudrack and Mason (2013, p. 585) find, however, that: "There is little evidence that ethical judgments relate systematically to respondent-determined ethical climate."
91. The extent to which one is potentially impacted by others can be based on the notion of *field dependence*, which has been defined as a person's dependence on external social referents to guide their behavior, such as work colleagues. See: Treviño (1986, p. 610).

92. For example, see: Hunt and Vitell (1986); Treviño (1986); Bommer *et al.* (1987).
93. Ferrell *et al.* (1989, p. 61).
94. In terms of rewards and sanctions, O'Fallon and Butterfield (2005, p. 398) find that: "The impact of rewards and sanctions is clear – rewarding unethical behavior tends to increase the frequency of such behavior, while effective sanctioning systems tend to decrease such behavior."
95. In terms of the type of industry: "Due to the fact that different industries were examined in various studies, no overall conclusions regarding the effect of industry can be drawn" (O'Fallon and Butterfield, 2005, p. 397). In terms of organizational size: "The research in this area generally suggests that organizational size has a detrimental effect on ethical decision making. However, given the mixed results, future research appears warranted" (O'Fallon and Butterfield, 2005, p. 397).
96. These other factors include: business competitiveness, subjective norms, stress, and mindfulness of one's environment. Work roles might also influence ethical decision making, as one might be inclined to adopt their functional or hierarchical role in deciding how to behave (see: Crane and Matten, 2010, p. 172; Treviño and Nelson, 2011, pp. 272–276). Future ethical decision-making empirical research may examine these factors further and find that they influence ethical decision making.
97. Albrecht (2003).
98. See: Albrecht (2003, p. 30).
99. The notion of "vulnerability" has apparently received little attention in the business ethics literature (see: Brown, 2013), although Comer and Vega (2008) do refer to one's "personal ethical threshold" which incorporates the notion of vulnerability.
100. Treviño (1986).
101. These conclusions are based on the many MBA student ethical dilemmas I have read as part of a class assignment.
102. Treviño (1986).
103. This is discussed by Prentice (2014, pp. 338–339).
104. As additional empirical support, a number of interview-based studies of managers and employees have confirmed that *situational* factors related to the organization context and our personal situation are perceived to be the most important determiners of our actions and behavior. Executives ranked several factors thought to influence unethical behavior in the following order: (i) the behavior of superiors; (ii) the ethical practices of one's industry or profession; (iii) the behavior of one's peers in the organization; (iv) formal organizational policy (or lack thereof); and (v) personal financial need (Baumhart, 1961). Other studies have found similar results. For example, Brenner and Molander (1977) and Posner and Schmidt (1987) repeated Baumhart's study with the addition of "society's moral climate" as a possible factor. Although there were different rankings of the factors across the three studies, they all found that *behavior of superiors* was considered the number one influence on unethical behavior, with *behavior of one's peers* being ranked high in two of the three studies.

105. Kohlberg (1973); Jackson *et al.* (2013).
106. Petrick and Quinn (2000).
107. Jones (1991).
108. Butterfield *et al.* (2000).
109. Robin *et al.* (1996).
110. Tenbrunsel *et al.* (2003).
111. Albrecht (2003).

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