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Managing Unethical Behavior in Organizations:  
The Need for a Behavioral Business Ethics Approach

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### Abstract

Issues of morality and ethics have increasingly become more important in organizations and business settings. Traditionally, these issues of ethics and social responsibility in business settings have been discussed and commented on by prescriptive approaches that are grounded in philosophical traditions. Building on the idea that we need to develop a more comprehensive and complete understanding of the value that people assign to ethics and how it influences their actions and decisions, in the present article we discuss and review the importance and relevance of adopting also a descriptive approach that is grounded in the behavioral sciences (referred to as behavioral business ethics). This approach has the advantages to promote our insights into how people can show both good and bad behavior and why this is the case. Behavioral business ethics therefore represents an important research challenge for organizational researchers to pursue and engage more meaningfully with more prescriptive approaches.

## On Understanding Unethical Behavior in Organizations:

### The Need for a Behavioral Business Ethics Approach

It is by now clear to everyone that as a result of corporate failures in the moral domain, a critical challenge for organizations is to gain a deeper understanding of why ethical standards are so easily violated and accepted. Within workplaces we are confronted on a daily basis with many difficult choices, some of which include a moral component and hence create conflicts of interest where the decision-maker has to weigh the importance of commonly accepted moral principles (e.g. delivering safe and high-quality products) versus the demands of a competitive market where profit seeking dominates. All too often, greed has turned out to be center-stage in our decisions, which was clearly illustrated when many banks had no problem distributing millions in bonuses – even guaranteed ones without any commitment to high performance - to those who eventually made decisions that drove the company and society at large into a financial crisis. Highly featured court cases in which investment banks are involved for fraud and misrepresenting information are no exception anymore.

All of these decisions bring pain and hurt to the interests of society at large and makes that trust in our economic institutions and organizations are at an all-time low. Cases like the United Kingdom parliamentary expenses scandal show that unethical behaviors and decisions can bring forward significant financial and reputational damages to our society and organizations (Bennett & Robinson, 2000). Even more so, at the level of the company, the downplaying of moral standards and lack of adherence to norms preventing unethical behavior and wrongdoings burden the reliability and profitability of

those same companies. For example, as pointed out by De Cremer (2014), corporate ethical failures led the German company Siemens to agree to a \$1.6 billion settlement to remedy harmful consequences of their bribery actions in emerging markets and in a similar way the oil company Royal Dutch Shell was required to pay \$150 million because they misrepresented information about their oil resources.

As De Cremer, Tenbrunsel, and van Dijke (2010, p. 1) note, all “these observations make clear that ethical failures have become an important reality for corporations, organizations, and societies at large and as a result there is a growing concern on how to manage and regulate such failures”. For this reason, it is essential that we develop a better understanding why the morals and ethical actions of so many business people seem to go out of the window as soon as self-interest can be served in the short term. To do this it is essential to also rely on evidence-based approaches and take stock of the research that is available at present. In light of this ambition, we argue that is necessary to take a look at how business ethics has been studied so far and how new approaches to this topic may help us to take the existing knowledge even further. Schminke (2010) has previously written about the difficulties with integrating descriptive and prescriptive approaches to business ethics. Alzola (2011) argued that since both approaches have their specificity, an integration is not the best way forward. Instead, Alzola (2011: 32) calls for a reconciliation, which he understands as a “dialog without hybridization, a dialog that starts with the premise of respecting the identity of those involved in the conversation.” The aim of the present paper is to recast prescriptive and descriptive business ethics in light of one another. For that purpose the paper is structured as follows. In the next section we first briefly sketch the business ethics theories within

the most important philosophical paradigms. We suggest that their theoretical developments are epistemologically driven, i.e. they are human efforts to grapple with moral perplexity. The section after that review the field of behavioral research and summarizes the implications from the relatively new behavioral business ethics research approach (De Cremer & Tenbrunsel, 2012; Moore & Gino, 2013; Treviño, Weaver, & Reynolds, 2006). The importance of this descriptive business ethics research lies in the empirical insights into situational factors of “bounded ethicality”. We then continue with a section discussing the challenges that these insights propose for the field of business ethics and indicate possible dialogs between descriptive and prescriptive business ethics.

#### Business Ethics and the Normative Approach

Until quite recently, business ethics as a field focused on how managers and employees should act to satisfy generally accepted ethical standards (see Jones, 1991; Rest, 1986). This approach can be described as one where the “oughts” and “should” are dominant in people’s thinking about ethical behavior and is referred to as the prescriptive approach (Treviño & Weaver, 1994). Using this approach to intervene in management practice implies the assumption that if people are told how they should act in terms of ethical standards, they consciously will adjust their behavior accordingly. This perspective is based on ideas developed in philosophical traditions and includes prescriptions about comportment towards self, others, and the environment, and also prescriptions about decision-making, both in substance as well as procedural. Prescriptive business ethics draws on theories about the nature of what is ‘good’ (ontology) and how we can know what ‘good’ is in specific situations (epistemology). Hence discussions

between prescriptive business ethicists are most productive when they happen within a specific paradigm. Utilitarianism, deontology, and virtue ethics are the main paradigms within which prescriptive business ethics is developed. Utilitarianism judges the ethicality of an act by looking at the consequences of that act. It is based on the notion of cause-effect and the binary abstraction of human strivings for pleasure over pain. The good is thus what causes more pleasure than pain for stakeholders. Deontology does not consider consequences. Instead, the ethicality of an act is judged by whether or not the act itself is good. It is based on the notion that humans can act on free will. This is not a whimsical will. Rather, free will is a will freed from “the passions” and directed by reason only. The good is thus an act which a free will is able to will as an act. The deliberation of that ability consists of versions of Kant’s three tests: universalizability, respect for humans as willing beings, and conceptual tenability. Virtue ethics considers an act in order to pass judgment on the actor. The good is a matter of living a “good life”, i.e. acting as a virtuous person and being seen as such. It is based on the notion of the human telos - the potential flourishing as human beings - which we can only achieve by acting as a virtuous person would. Generally, a virtuous person achieves the right balance between too little and too much of a virtue, e.g. confidence as the virtuous middle between anxiety and hubris.

We find it important to note that each of these has its own historicity, meaning that these strands of ethical theory were developed as an attempt to solve pressing societal problems of their time. Jeremy Bentham and John Stuart Mill developed utilitarianism in the context of social reforms demanding government policies that would improve the life of the poor instead of that of the aristocracy. Immanuel Kant developed

his thinking in an attempt to give ethics a non-religious foundation in a time when Europe was ravaged by religious wars. Enlightenment thinkers such as Kant based science, politics and ethics on human reason. It would also be incorrect to state that these people did not have an impact, or that those building further within these paradigms fail to have an impact today. John Rawls' neo-Kantian seminal work *Theory of Justice* (1971) develops distributive prescriptions from a hypothetical situation in which people decide on how to distribute goods and benefits within society, from behind a 'veil of ignorance' where we have no knowledge of where on the social ladder we will live nor of our gender or (dis)abilities. What Rawls wants to point out is that there is a rational way to organize society in a just way but this rationality implies we can make abstraction of any concrete personal situation. Hence, to make a just decision we must take the 'view from nowhere'.

Another neo-Kantian approach, procedural ethics, became popular through the work of Jürgen Habermas' discourse ethics (Habermas, 1991). Instead of postulating the foundation of ethics in our individual human reasoning abilities, Habermas sought to formulate such a foundation in the consensus people reach through dialogue. Habermas' moral philosophy is thus an exploration of what constitutes a dialogue between humans which can lead to an agreed decision. The answer is the 'domination-free dialogue' (herrschaftsfreie Dialog) or the ideal speech community. It is an ideal-typical situation where all those affected can speak without fear and whilst being fully informed. Habermas thus formulates prescriptive statements with regard to how a decision must be reached, because it is the procedure through which a decision is made that justifies the content of that decision. The work of Habermas is also used to develop frameworks to understand business organizations as political actors (Scherer & Palazzo, 2007).

For the purpose of this paper, the important aspect of the prescriptive approach is that it advocates a view point that if people know how they should act, they will be consciously aware of these moral demands and hence display behaviors in line with these “oughts” and “shoulds” (Rest, 1986; Reynolds, 2008). A prescriptive approach thus implies that people are rational human beings, who make conscious decisions about how to act. As a result, prescriptive approaches to business ethics assume that bad people do generally bad things and good people do good things, because they are rational decision-makers. Explaining situations whilst sticking to this rational way of reasoning is attractive for a variety of reasons (De Cremer, 2009, De Cremer & Tenbrunsel, 2012): (a) it is a simple assumption that promotes an economic way of thinking about moral violations, (b) allows to blame a few “bad” apples for the emerging violations, and (c) provides a justified ground to punish those regarded as rationally responsible. However, many situations exist where good people do bad things - an observation that has received considerable empirical support (Bersoff, 1999; Chugh, Banaji & Bazerman, 2005; Gino, Schweitzer, & Mead, 2011; Shalvi, Dana, & Handgraaf, 2011; Umphress & Bingham, 2011). These observations challenge the accuracy of the prescriptive approach in predicting the extent to which so-called rational human beings will display ethical behavior. It seems to be the case that because of rather irrational, psychological tendencies humans do not always recognize the moral dilemma at hand and engage in unethical behaviors without being aware of it. Indeed, Tenbrunsel and Messick (2004, p. 204) even note that “Individuals do not “see” the moral components of an ethical decision, not so much because they are morally uneducated, but because psychological processes fade the “ethics” from an ethical dilemma.”



To make sense of the fact that good people can do bad things an alternative view point is needed that accounts for people's morally irrational behavior. We propose that this alternative view point is a descriptive approach that examines more closely how people actually take decisions and why they sometimes do not act in line with the moral principles that are universally endorsed. This approach is in line with Treviño, Weaver, and Reynolds (2006, p. 952) definition of behavioral ethics, which "refers to individual behavior that is subject to or judged according to generally accepted moral norms of behavior." Important to realize is that such a behavioral approach includes the assumption that people do not always deliberately cheat or engage in unethical actions because many of our moral judgments and interpretations have to be considered as consequences of automatic and intuitive affective reactions. Haidt (2001, p. 818), for instance, defined moral intuition as "the sudden appearance in consciousness of a moral judgment, including an affective valence (good-bad, like-dislike), without any conscious awareness of having gone through steps of searching, weighing evidence, or inferring a conclusion." Put simply, our moral evaluations and decisions are not only guided by conscious rational thought processes but also by quick and affect-laden processes (e.g. Ruedy, Moore, & Gino, 2013).

Business ethics approaches thus have to take into account moral intuition to understand why managers, employees and even organizations can so easily deviate from morally accepted standards in their actions and decisions. A famous example of illustrating the role that intuitions and emotions play in making moral judgments concerns the trolley problem as discussed by philosophers (Foot, 1967; Otsuka, 2008; Thomson, 1985) and examined extensively recently by neuroscientists (Green, 2013).

What makes the footbridge version interesting is that in terms of outcomes the dilemma is objectively the same as in the lever version: in both dilemmas a choice has to be made between one person versus five people dying. Although the philosophical tradition of utilitarianism would dictate us to simply count in both versions of the dilemma, people do deviate from this rational approach in the footbridge dilemma. The reason for this is that by pushing a person from the footbridge people are asked to explicitly and directly harm someone and because of this association our emotions will come into play and make us act less rational (Greene, Sommerville, Nystrom, Darley, & Cohen, 2001; Haidt, 2007).

Interestingly, this relationship between doing harm to others and intuition was also the main theme of the moral philosophical work of Emmanuel Levinas (Burggraeve, 1999; Levinas, 1969/2003). It is the encounter with another person that lays a moral claim on me. Levinas terms this the face-to-face with the Other - he uses capital 'O' to emphasize the radical otherness of the other, i.e. irreducible to the 'same as me'. For Levinas, moral claims entail an endless responsibility towards the other. There exists no calculation and no principled reasoning that releases me from my responsibilities to the other. In that sense, the work of Levinas is radically different from the rational approaches in ethical theory we mentioned at the outset of this paper: utilitarianism, deontology, and justice. Levinas' work provides us with a philosophical account of why ethical intuition persistently overrides rational 'solutions'. It is the physical presence of another person that makes us perceive a situation as quite different, something rational ethical theories are not able to take account of. The work of Levinas is a reaction to the Nazi atrocities of the second world war, and in this sense can be seen as part of philosophical grapplings with how organization and ideology blunts ethical reasoning.

Arendt's (1963) work on the 'banality of evil' and Lyotard's (1984) critique of grand narratives are other examples. These influenced Bauman's (1991) work on "moral distance" to which we turn further in this paper.

Taken together, the assumption that when people are confronted with moral dilemmas they are automatically aware of what they should be doing and therefore are in control to do the good thing is limited in its predictive value because of the fact that humans seem to deviate from what rational approaches predict. In this paper we do not argue that people may not consciously do bad things, and are thus clearly in control of their actions, but rather wish to point out that conditions exist where our human rationality fails and we are to some extent blind to our own ethical transgressions. For this reason, if we are serious about designing more effective interventions to prevent the emergence of unethical behaviors we also need to increase our understanding of why and how rational approaches to ethics fail and why there is an irrational element present in our ethical-decision making processes. In our view prescriptive business ethics and behavioral business ethics are complementary in helping us to understand such questions.

#### Behavioral Business Ethics: An emerging new field

When asked to evaluate one's own actions, people know that unethical behavior implies the actions that "I could not justify to others on grounds I could expect them to accept" (Scanlon, 1998, p. 4). But knowing that unethical behavior needs to be accounted for does not directly imply that people are able all the time to control impulses that undermine our conscious control over our bad and good actions. This point of view therefore suggests that the bad behaviors that we have seen committed by corporate

leaders in the last two decades cannot simply be seen in light of their “bad” and “unethical” personal character. Indeed, it is intriguing to observe that the actors in many business scandals do not see themselves as having a bad and ethically flawed personality – they consider themselves as good people who have slipped into doing something bad. How can we explain this?

An interesting idea put forward by the behavioral business ethics approach is that many organizational ethical failures are not only caused by the so-called bad apples. In fact, closer inspection may reveal that many ethical failures are in fact committed by people generally considered to be good apples (Bazerman & Banaji, 2004), but depending on the barrel they are in they may be derail from the ethical path (Kish-Gephart, Harrison, & Trevino, 2010). As such, it may well be that all of us may commit unethical behaviors, given the right circumstances and therefore we need to zoom in more on how individuals process morality information and its flaws and how they do this in the larger social setting. Or, as Tenbrunsel and Smith-Crowe (2008, p. 548) note: “behavioral ethics is primarily concerned with explaining individual behavior that occurs in the context of larger social prescriptions.” The role of behavioral ethics in addressing ethical failures is to introduce a psychological-driven approach that examines the role of cognitive, affective and motivational processes to explain the “how”, “when”, and “why” of individual’s engagement in unethical behavior. This point of view aligns well with Bazerman and Banaji (2004, p. 1150) observation “that efforts to improve ethical decision making are better aimed at understanding our psychological tendencies.” It has become increasingly more accepted that this approach will allow us to identify deviations from actions and decisions based on a rational type of predictions, explain why these

deviations occur, and design more effective preventions and interventions (De Cremer, van Dick, Tenbrunsel, Pillutla, & Murnighan, 2011; De Cremer, Tenbrunsel, & van Dijke, 2011).

In the following section, we discuss two topics that have received considerable attention the last few years by behavioral ethics researchers. These two topics illustrate how psychological processes play a role in shaping people's moral judgments and actions that are relevant to business and organizations: (a) the processes and biases taking place during ethical decision making and (b) the impact of the social situation on how ethical judgments and actions are framed and evaluated. Research on these two topics advocates the view that when it comes down to ethics, many people are followers, both in implicit and explicit ways. More precisely, the field of behavioral ethics makes clear that people are in essence followers of their own cognitive biases and the situational norms that guide their actions.

### Ethical Decision Making

Before an actual decision is made in the moral domain, people need to realize that their decision may reveal ethical consequences to both themselves and interdependent others. Only then, decisions that are violating existing and shared moral principles can be recognized early on in the decision-making process and hence be interrupted in a timely fashion to prevent further ethical escalations. Or, as Jones (1991) puts it, "for the moral decision-making process to begin, a person must recognize the moral issue" (p. 380). As mentioned earlier, this key aspect in the conscious decision-making process is only a given if humans only make rational decisions. However, the behavioral ethics approach clearly postulates that we are not solely driven in our actions by reason and that often

emotions exert significant influence. As a result, our decisions with respect to moral dilemmas are bounded in rationality, which led Banaji and colleagues (Banaji & Bhaskar, 2000; Banaji et al., 2003; Chugh, Bazerman, & Banaji, 2005) to refer to this issue as “bounded ethicality”. Bounded ethicality includes the workings of our human psychological biases that facilitate the emergence of unethical behaviors that do not correspond to our normative beliefs. Specifically, people develop or adhere to cognitions (biases, beliefs) that allow them to legitimize doubtful, untrustworthy and unethical actions. Importantly, these cognitive biases operate outside our own awareness and therefore in a way make us blind to the ethical failures we commit (Reynolds, Leavitt, & DeCelles, 2010). In addition, this blindness is further rooted in the self-favoring belief that in comparison to the average person one can be looked upon as fairer and more honest (e.g. Hilbig & Hessler, 2013; Epley & Dunning, 2000; Taylor, 1989). These self-favoring interpretations of who they are in terms of morality, are used by humans in implicit ways to infer that they will not act unethically, which as a result lowers their threshold of monitoring and noticing actual violations of our ethical standards (Banaji, Bazerman, & Chugh, 2003).

In other words, the concept of bounded ethicality helps us to understand why people can see themselves as ethical persons while nevertheless making unethical decisions. This concept of bounded ethicality thus literally includes a blindness component, which can be seen as activating an ethical fading process, which as Tenbrunsel (2005, p. 96) notes is “a process that removes the difficult moral issues from a given problem or situation, hence increasing unethical behavior.” Below, we briefly discuss a number of psychological processes that influence people to show unethical

behavior even if it contradicts their own personal beliefs about ethics. These processes are: moral disengagement, framing, anchoring effects, escalation effects, level construal, and should-want self.

**Moral disengagement.** One important psychological process that biases people's moral awareness concerns the concept of moral disengagement (Bandura, 1999). Moral disengagement can be defined as "an individual's propensity to evoke cognitions which restructure one's actions to appear less harmful, minimize one's understanding of responsibility for one's actions, or attenuate the perception of the distress one causes others" (Moore, 2008, p. 129). In a way moral disengagement can thus be seen as a buffer that allows people to free themselves from feeling guilty and uneasy with the idea that they may have violated accepted ethical standards. Having morally disengaged thoughts makes unethical behavior more likely to emerge. Moreover, moral disengagement is particularly successful to reduce feelings of dissonance that would normally occur if an individual has strong moral awareness when harming the interests of others. These processes have more recently also been studied in organizational settings. Beu and Buckley (2004) illustrated that certain leadership types (transactional, personalized charismatic leaders) have an influence on how subordinates can morally justify own bad behavior. Research on organizational corruption also focuses on the disengagement processes that help to rationalize how "corrupt individuals tend not to view themselves as corrupt" (Ashforth & Anand, 2003, p.15-25).

**Framing.** Depending on how a situation is cognitively represented has an effect on how we approach moral dilemmas and take decisions (Kahneman & Tversky, 2000). One of the types of frames most studied is whether a decision involves a loss or a gain.

Insights building upon the concept of loss aversion (the notion that people perceive losses as more negative than they regard gains of an equal magnitude as positive, see Tversky & Kahneman, 1981; Kahneman & Tversky, 1979) suggest that self-interest looms larger when people are faced with loss. Indeed, losses are considered more unpleasant than gains are considered pleasurable and hence invite more risk-taking to avoid the unpleasant situation. Thus, risk-taking often leads to behavior violating ethical standards. Findings in line with this notion suggest that losses indeed can enhance people's concern for their self-interest, and thus give rise to selfish (Brewer & Kramer, 1986; Poppe & Valkenberg, 2003; Sondak, Neale, & Pinkley, 1995) and unethical intentions (e.g., Kern & Chugh, 2009) and behavior (Reinders Folmer & De Cremer, 2012). The current financial crisis can be analyzed using the negative frame of suffering financial losses. As people are motivated more strongly to avoid losses than to achieve gains, it is in one's own interest to make sure losses are avoided. One way to do this is to take more risks (Thaler, Tversky, Kahneman & Schwartz, 1997). In a business context risky behavior to preserve one's self-interest quickly takes the form of corruption and fraud. Put differently: when looking at a situation in terms of losses, corruption is never far away. Recent surveys reported in the media support this idea: employees expect more corruption in the future, and are themselves not wholly reluctant to use unethical means to achieve their goals (see De Cremer, 2010a).

**Anchoring effects.** An important side-effect of framing effects – as discussed above - is the anchoring effect (Strack & Mussweiler, 1997; Tversky & Kahneman, 1981). This effect holds that our judgments and decisions are strongly influenced by the information that is available and accessible. Importantly, this information can be very



arbitrary or even irrelevant to the decision and judgments one is making. This idea is illustrated in a famous early study by Tversky and Kahneman (1974) who spun a wheel of fortune with numbers that ranged from 0 to 100 and asked participants whether the fraction of African nations in the United Nations was greater than or less than that number. Participants were then required to estimate the actual figure. Interestingly, estimates were significantly related to the number spun on the wheel (the anchor), even though subjects could clearly see that the number had been generated by a purely chance procedure. The “anchoring” effect is clear in a sense that participants used the number shown on the wheel and then used that number as an anchor – that they insufficiently adjusted away from – to arrive at an estimate. In a similar vein, it follows logically that arbitrary information can thus also set the stage for unfair and irrational decision-making. This implies that it is more likely for price increases to be based on the initial suggestions of the market itself than on the amount the consumer wants to pay. A clear example is the high price of oil observed in 2009. Arbitrary figures caused an escalation in bidding, resulting in price increases that were not attributable to changes in availability or demand. The same appears to apply to the inexplicable increases on the housing and stock markets leading to the current financial crisis.

Escalation effects. One important observation concerns the fact that those showing bad behavior never arrive immediately at the stage of doing bad. Rather, it seems like bad behavior emerges slowly and gradually as can be inferred from remarks like “I never thought I would show this kind of behavior.” In the literature this effect is referred to as the escalation effect or the slippery slope effect. The famous social psychology experiment by Milgram (1974) illustrates this principle. His results showed

that a high proportion of individuals subjected fellow participants to excruciating electric shocks under the instruction of an experimenter. In addition to showing the powerful effect of obedience, these results were also important because they illustrated that participants were only able to deliver these electric shocks – and morally accept them - because it was built up slowly. That is, participants started off with delivering small shocks, gradually increasing their intensity. If the experimenter would have asked immediately to deliver the highest shock voltage possible (440 volts) then most participants most likely would have denied delivering the shock. The idea behind this escalation effect is that “each step is so small as to be essentially continuous with previous ones; after each step, the individual is positioned to take the next one. The individual’s morality follows rather than leads. Morality is retrospectively fitted to previous act by rationalizations...” (Darley, 1992; p. 208).

Thus, many unethical decisions and actions grow slowly into existence and this escalation process itself is not noticed consciously. Indeed, the literature on cognition and perception has shown that we have difficulties noticing changes in our environment that emerge gradually (Levin 2002). A similar process is at play when it comes down to the emergence of corruption, fraud and issuing false statements (Moore, 2009; Gino & Bazerman, 2007). For example, research by Cain, Loewenstein, and Moore (2005) described how auditors are often blind to clients’ internal changes in accounting practices, but only if the changes appear gradually.

Level construal. One noteworthy observation is that people’s decisions and judgments are more colored by self-interest in the short-term relative to the long-term. As Moore and Loewenstein (2004), argue, self-interest is automatic and is thus easily

activated when there is time pressure and immediate actions are required. When decisions are delayed people seem to apply more easily moral standards and even construct more harsh moral judgments. Recent research by Eyal, Liberman, and Trope (2008) actually showed that people judge immoral acts as more offensive and moral acts as more virtuous when the acts are more distant in time rather than close. Level construal theory can explain this (Liberman, Trope, & Stephan, 2007; Trope & Liberman, 2003). According to this theory, acts that are in the distant future cannot be experienced directly and therefore are hypothetical. Hypothetical situations bring their own mental constructions with it and a consequence of this process is that more distant events (e.g. events on the long-term) are represented with it less concrete details. Under such circumstances, people adhere more easily to moral standards as guide lines for their decisions and judgments. In contrast, events that are closer in time are represented in less abstract and more concrete ways. Under those circumstances people will rely more on concrete details and relevant contextual information to make decisions and judgments. Then, egocentric tendencies will more easily influence the actions one will take.

Forecasting errors. One necessary challenge that organizations, managers and leaders are confronted with is to constantly predict the future. Not only forecasts with respect to what others will do but particularly forecasts with respect to the decisions oneself will and should undertake in the future are relevant to understanding the emergence of unethical behavior. The affective and behavioral forecasting literature (for reviews see Wilson & Gilbert, 2003, 2005) shows that individuals are quite limited in predicting the level of distress they will experience following emotional events (Gilbert, Pinel, Wilson, Blumberg, & Wheatley, 1998;). Participants consistently overestimated

their future emotional reactions to both positive and negative events (Gilbert et al., 1998; Wilson, Wheatley, Meyers, Gilbert, & Axsom, 2000). With respect to what people expect they will do, literature on behavioral forecasting shows that people overestimate their tendency to engage in socially desirable behaviors like being generous or cooperative (Epley & Dunning, 2000), and underestimate their tendencies toward deviant and cruel behavior like providing electric shocks (Milgram, 1974). Moreover, people also overestimate their willingness to forgive moral transgressions by overvaluing restorative tactics such as offering apologies (De Cremer, Pillutla, & Reinders Folmer, 2011). In a similar vein, it also follows that people are biased in their predictions in such a way that they will predict to behave more ethically than they actually will do in the end.

Should-want Selves. Related to the issue of forecasting errors is the distinction between the “want” self and the “should” self. This distinction was introduced by Bazerman et al. (1998) and is used to describe intrapersonal conflicts that exist within the human mind; notably conflicts between what we morally should be doing and what in reality we want to do. As we noted earlier, people show important forecasting errors when it comes down to predicting own moral behavior. Specifically, people predict that they will act more morally in situations than they actually do when being confronted with these situations. These faulty perceptions and estimates can be explained by the distinction between should and want selves. The “want” self is a reflection of people’s emotions and affective impulses. Basically, the want self is characterized more as “hot headed.” The “should” self, in contrast, is characterized as rational and cognitive, and can thus be looked upon as “cool headed.” Applying this distinction to our forecasting problem, it follows that the “should” self is more active when making decisions on the

long-term, whereas the “want” self is doing more of the talking when it concerns short-term decisions. Morality and ethics as standards to live by are thus more accessible and guiding when making predictions towards the future. Moreover, because people are generally optimistic and have great confidence in their own judgments they will consider their predictions towards the future as valid and reliable.

### The Impact of the Situation

The above makes clear that psychological processes significantly influence people’s perceptions, interpretations and ultimately their behaviors. At the same time, these studies and the fact that scholars find them salient, show that people are aware of what would constitute ethical behavior, or at least people are still trying to be rational or give reasons for how they behave, but are unaware of the extent in which they fail to be rational. Hence, prescriptive ethics is not a cognitive fantasy of moral philosophers. This observation therefore strongly suggests that behavioral ethics researchers need to devote attention to the automatic and egocentric biases or heuristics that influences individual’s behavior. Of course, such a focus is only concerned with the cognitive, motivational and affective processes that take place within the individual (i.e. an intra-individual approach). As we know from social psychology (Snyder & Cantor, 1998), human behavior, however, is not only influenced by what one feels, thinks and wants, but also by the situation one is interacting in (see also Trevino, 1986). This is an important point to make because people underestimate the impact of the situation; a tendency referred to as the fundamental attribution error (Ross, 1977). This bias describes the tendency to over-value dispositional or personality-based explanations for the observed behaviors of

others while under-valuing situational explanations for those behaviors. In social psychology several famous studies have been conducted to illustrate the impact of social context on people's behavior, and show relevance to the emergence of evil and bad behavior (Ash, 1955; Milgram, 1974; Zimbardo, 2007).

The Ash (1955) experiments on social influence and conformity illustrated in a persuasive manner that social conditions exist that make individuals comply with group pressures considering what a correct response is even when the opinion of the group is clearly contrary to fact. To test this idea Ash put a group of eight individuals (one participant and seven confederates) together in a room and verbally stated which of three unequal lines matched a given line. The participant was seated so that he made his judgment last. Results showed evidence for the "majority effect" in such a way that participants deviated from their own personal judgment (which was correct) if the majority of the group opted for another response. These findings suggest that people can easily deviate from what is considered good behavior if enough others show bad behavior.

The famous experiments by Milgram (1974) into obedience to authority have had a significant impact on how social influence can shape bad behavior. As discussed earlier in the present paper, his findings were important as they demonstrated that people can be easily pressured into complying with evil requests from their supervisors. Despite the fact that most participants blamed the experimenter to avoid personal responsibility, the findings are clear in showing that people do not stand up to authorities that easily and thus are subject to normative and social influences more than they would predict themselves.

Finally, in 1971 Zimbardo (2007) conducted an impressive experiment at the Stanford University campus in which participants assumed the roles of ‘prisoner’ or ‘guard’ within an experimentally devised mock prison setting. It was the intention of the research team to last the experiment for two weeks, but due to escalated behavior the study had to be terminated earlier. Specifically, many of the participants classified as ‘prisoners’ were in serious distress and many of the participants classified as ‘guards’ were behaving in ways which brutalized and degraded their fellow participants. Participants were so merged into the prisoner’s setting that they took up their roles too seriously, leading to behavior that was considered inappropriate and unethical at times. This study shows the powerful influence of organizational roles and how it can implicitly influence people’s beliefs and consequently their actions. With regard to the direct impact of roles in organizational settings, De Cremer and colleagues (De Cremer, 2003; De Cremer & Van Dijk, 2005, 2008; Stouten, De Cremer, & Van Dijk, 2005; Van Dijk & De Cremer, 2006) demonstrated in a series of experimental studies that providing people with the label of leader makes them more self-serving in a way that they allocate more tangible resources to themselves. In addition, this self-serving behavior goes together with a belief that leader labels make people feel that they are actually entitled to more rewards than when they are provided the label of follower. This is precisely the bias the Rawlsian ‘veil of ignorance’ we mentioned earlier aims at avoiding.

All of these studies provide strong evidence that the social context in which we make ethical-related decisions can exert a significant influence and derail us from the good behavior we are expected to show. This idea of context being a powerful determinant for people to act in bad and unethical ways towards others has been central

in the work of Bauman on “moral distance” (Bauman, 1991). The notion of moral distance holds the idea that people will have only ethical concerns about others that are near to them. If the distance increases, it becomes easier to behave in unethical ways. Interestingly, the work of Bauman was heavily influenced by the earlier mentioned study of Milgram (1974) on obedience to authority. One could say that in the Milgram study the fact that the participants were sitting in a different room and did not see the confederate who was supposedly receiving the electro shocks made it easier for them to increase the level of shocks to a deadly level.

If context is essential in activating the effects associated with the notion of moral distance, a specific question to address is how we can understand how specific organizational settings influence people’s decisions to show good behavior or not. In light of this question, Tenbrunsel, Smith-Crowne, and Umphress’s (2003) approach to study the impact of the situation on people’s unethical behavior and decision making by looking at organizational elements is promising. These authors put forward the idea that organizational settings carry so many specific features with it and each of these features may frame the organizational setting in ways that either prevent or facilitate unethical behavior and decision making (De Cremer, 2010).

A first organizational feature is the kind of industry people may work in. For example, the LIBOR scandal where traders manipulated the interest rate known as Libor illustrates that a context defined in terms of finance actually encouraged dishonest behavior. Indeed, when ex-trader Tom Hayes was sentenced to 14 years in prison for his taking part in the Libor scandal, he noted in his voluntarily testimony that the practices he engaged in were widespread and blatant in the industry. This claim has been backed up



by recent behavioral ethics research showing that mere exposure to money – an organizational feature much present in the financial sector - leads to more unethical behavior (Kouchaki, Smith-Crowe, Brief, & Sousa, 2013). The reason for this causal relationship is that the mere exposure to money makes people adopt a business decision frame in which decisions are more calculative. In addition, other recent research has further demonstrated that people with a calculative mind set act in more selfish and unethical ways (Wang, Zhong, & Murnighan, 2014).

Another organizational feature can be the structure of the organization that creates more versus less distance towards others, which can influence the degree of unethical behaviors. Two types of organizational structures that are relevant to this issue are mechanistic and organic structures (Slevin & Covin, 1997). Mechanistic structures in organizations represent rigid and bureaucratic decision-making structures that foster more hierarchical and distant relationships and communications. Organic structures, on the other hand, represent organizations that are flexible and use more decentralized structures in which it is easier to communicate and relationships are experienced as more close (Khandwalla, 1977; Lawrence & Lorsch, 1967). Based on the idea of Bauman (1991, p. 26) that bureaucracy functions as a “moral sleeping pill”, it stands to reason that mechanistic organization structures introduce more distance and hence allow for more unethical behaviors to emerge.

Yet another organizational feature that is known to frame the work setting of employees and thus influence the display of (un)ethical behaviors is the use of punishment systems (Mulder et al., 2006; Tripp, Bies, & Aquino, 2007). Broadly speaking two reasons can be identified that drive the use of punishment in relationship to

unethical behavior (Carlsmith, 2006). A first reason concerns the idea of retribution or just desert motive, in which punishment is employed to ensure that the perpetrator of ethical standards gets what he/she deserves (Carlsmith et al., 2002). In other words, punishment is seen as an end in itself. In this view, punishment of unethical behavior is morally justifiable out of a negative reciprocity feeling, which may be enhanced when power of the one punishing increases (Wiltermuth, Scott, & Flynn, 2013). Moreover, the view of retribution uses the important principle of moral proportionality – the punishment evoked should be of the same degree that moral offence was created by the transgressor.

The second reason concerns the idea of utility or deterrence, in which punishment is used to prevent future wrongdoing. The costs associated with being punished should be an obstacle for a perpetrator to engage in the same unethical transgressions again. As such, violations of ethical standards and the subsequent punishment are usually evaluated in terms of its utility. In line with this idea, research by Trevino and Ball (1992) indeed showed that the punishment of unethical behavior is perceived as fairer by observers when the punishment is more severe.

A final important organizational element that influences significantly the level of compliance among its employees is the perceived degree of fairness in which procedures are used to allocated organizational resources, or, also referred to as procedural justice (Thibaut & Walker, 1975; Tyler, 1988). When the decision-making authorities, acting as representatives of the organization, make use of fair procedures it makes that organizational members perceive the organization is a neutral and ethical collective. Tyler, Dienhart, and Thomas (2008), in fact, provided evidence that if organizational leaders enact fair procedures (e.g. giving voice, being accurate and unbiased in

processing information etc.; Leventhal, 1980) employees infer the idea that the organization considers the value of morality as an important one. This perception of a moral organization is essential to attract the right kind of employees pursuing the same moral standards and promotes the emergence of moral congruence between the organization and its employees, which furthers ethical and prosocial behavior (Tyler & De Cremer, 2009). Importantly, however, is that procedural justice not only builds ethical climates that are shared and supported by all organizational members, but it also helps to integrate punishment systems into those ethical climates. The reason for this is that the enactment of fair procedures promotes perceptions of legitimacy and trustworthiness (Tyler, 1997), and as a result punishment and control systems will be endorsed and complied with as means to promote and uphold the shared moral standards (De Cremer, Hoogervorst, & Desmet, 2012; De Cremer & van Knippenberg, 2003).

This focus on organizational elements that significantly impact the emergence of ethical versus unethical behaviors indicates that an important task for organizations is to devote attention to the design of the moral nature of their work climates. One step towards doing this is thus to create procedurally just climates (Tenbrunsel et al., 2003). Another way of doing this is to ensure the presence of a more general organizational ethical climate. Victor and Cullen (1987, p. 51), define ethical climate as “the shared perception of what is correct behavior and how ethical situations should be handled in an organization.” In such a climate, it is clear for employees which values the organization appreciates and actively pursues and which kind of behaviors will not be tolerated and thus corrected. A focus on designing and shaping the ethical infrastructure of the organizational climate is therefore an important responsibility of leaders at different

levels within the organization (Arnaud & Schminke, 2012; Tenbrunsel et al., 2003). That is, an ethical climate puts ethics on the agenda of its employees and defines what the organization really stands for. For example, ethical climates can lead to the validity and legitimacy of law and professional codes (Erondu, Sharland, & Okpara, 2004). Furthermore, ethical climates also promote ethics related individual outcome variables such as the development of ethical judgments, expressions of ethical intentions and fair and moral decision-making (Barnett & Vaicys, 2000; Buchan, 2005; Fritzsche, 2000).

#### The Future of behavioral ethics: What to do next?

In this review article, we described the usefulness and importance of a behavioral approach when studying issues relevant to understanding the workings of business ethics in organizations. It is vital for organizations and business to perform well and evidence is mounting that this can go hand in hand with good and moral behavior. So, in a way “good” companies can also do well at the performance level and as such can contribute to the sustainability of the organization. A behavioral approach helps us to understand why people act the way they do and why they do it. We hasten to say, however, that it is of course also important to stress that as a new field behavioral business ethics still faces many challenges. These challenges are, in our view, situated in four areas that are important with respect to (a) understanding further the psychological underpinnings of ethical judgments and decision-making, (b) creating a better understanding of the means on how to shape more ethical behavior when such behavioral constraints are available, (c) deepening our insights into how to remedy unethical failures, particularly in light of the

idea that all of us can fail at any given moment, and (d) critically analyzing and discussing the further development of the field of business ethics.

Below, we will discuss these challenges by pointing out the (1) importance of the ratio-emotion distinction (related to challenge (a)), (2) role of leadership in shaping ethical work climates and motivations (related to challenge (b)), (3) way we need to respond to build trust again after unethical failures (related to challenge (c)), and (4) relevance of integrating the descriptive and prescriptive approaches (related to challenge (d)).

The first challenge deals with examining further the psychological antecedents of human decision making and ethics. Specifically, it is important that in addition to looking at cognitive factors - what we have been doing for some time now (see the present section on ethical decision making) - that we also focus more closely on the role of emotions and motivations. To illustrate the importance of this shift in focus is the similar development phase that happened in the organizational justice literature in which initially a cognitive revolution took place as advocated by theories such as fairness heuristic theory (Lind & van den Bos, 2002), referent cognition theory (Folger & Cropanzano, 1998) and fairness theory (Folger & Cropanzano, 2001), among others. Following up on these important cognitive insights, research quickly accumulated focusing on the role that motives (De Cremer & Tyler, 2005) and emotions (De Cremer, 2007) play in the development of fairness judgments, perceptions and reactions towards injustice. However, we also agree with Reynolds and Ceranic's (2007) recommendation that "while we may have perhaps overrelied on cognition in the past, we did so for good reason. As the field moves towards

other areas ... it is wise to integrate into those new areas what research based on the cognitive perspective has already established.” (p. 1622)

On a related note, future research would do well to elaborate further on the distinction between affect-intuition and ratio. Earlier in this review, we made a distinction between the rational and intuitive approaches toward morality and ethics issues. Although we sometimes know how to judge consciously an event in moral terms, it often is the case that we know intuitively what is right and wrong without too much cognitive processing. The use of dual-process models (Chaiken & Trope, 1999) is therefore a necessity in the development of the field of behavioral business ethics. The introduction of such a model is arguably not new as concerns about the complex relation between reason, emotion, and intuition goes way back to the Stoics and is prominent in Spinoza’s ethics as well as the writings of early Enlightenment thinkers such as Hume (1777/1969), who suggested that emotions guide moral cognitions, and Kant (1785), who considered reason the primary determinant of moral judgments. Therefore, we do not only need to develop a research agenda in which both ratio and emotion/intuition have their place, but also focus on when exactly which process is dominating, and, maybe even more importantly, how ratio and intuition interact in arriving at morality judgments.

The second challenge concerns the development of the concept ethical leadership. Particularly in the wake of the financial crisis, the demand for leaders leading with integrity and morality is at its peak (Stouten, Van Dijke, Mayer, De Cremer, & Eeuwema, 2013). Brown, Treviño, and Harrison (2005) define ethical leadership as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-

way communication, reinforcement, and decision-making” (p. 120). Ethical leadership is thus believed to reveal more trustworthy, fair and cooperative working environments and intrinsically motivate employees to do what is morally justified for both the company and society at large (Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009; Walumbwa & Schaubroeck, 2009). Although the existing research paints a positive image of the effects that ethical leadership reveal, in our opinion, several shortcomings concerning the concept still need to be taken care of.

First, both the definition and operationalization of the ethical leadership concept entails a variety of leader behaviors that make up for the complete leader, but that fail to clarify accurately what makes this complete leader ethical. Specifically, ethical leaders are considered, fair, trustworthy, able to punish or reward, to show integrity and respect, to motivate and be the example to follow, making that so many components are involved that it is hard to see how research on ethical leadership is different from other established research themes in the organizational field. Therefore, it is necessary that an integration is pursued between those different research themes and that more insights are provided about which components matter more versus less in promoting the perceived morality of the leader.

Second, the definition of ethical leadership solely focuses on how the leader him/herself can set the example to be a moral employee, whereas it is also argued that ethical leaders should transmit ethical norms and standards across different layers within the organization (Schaubroeck, Hannah, Avolio, Kozlowski, Lord, Trevino, Dimotakis, & Peng, 2012). In this view, leadership is simply restricted to the one leading. More recent leadership studies and reviews have argued to adopt a follower-centered approach of

leadership as the congruency in values, attitudes and motives between leaders and followers ultimately leads to an increase in leader effectiveness (Boas, Pillai, Bligh, & Uhl-Bien, 2006). For example, across a series of experimental and field studies, De Cremer et al (2009) showed that self-sacrificial leadership (which falls under the broad umbrella of ethical leadership as it represents a leadership style focused on promoting the interest of the collective even at the expense of the leader's own interests) is most effective in promoting prosocial behaviors among followers who are motivated to pursue safety and maintenance of the social welfare. Thus, how congruent the leader behavior and identity is with the followers' values significantly influences how effective ethical leaders can be (cf. Mayer, Aquino, Greenbaum, & Kuenzi, 2012).

The third challenge deals with how people respond once unethical events have emerged. Although many organizations attempt to prevent the emergence of unethical decisions and actions, it is clear that these events will nevertheless occur. Hence there is a need to study the extent to which self-interest versus morality plays a role in addressing unethical outcomes. That is, unethical events can happen to one personally or one may observe how another person is treated badly. An important question is whether people will do something about the unethical event out of self-interested or moral concerns (cf. Turrillo et al., 2002). Specifically, will one only intervene and blow the whistle out of personal interest or also out of a sense of moral concern with the collective. This question is an important one from the perspective of organizations. As many tasks are conducted within teams and groups we need to know whether people will report wrongdoing when others are the victim of irresponsible and unethical acts. If this is the case then it is easier



to build moral communities within organizations that are intrinsically motivated to maintain high moral standards at the work floor.

There is also a need to study how to remedy ethical failures. How to deal with violations of morally accepted rules and standards in a way that trust (and by consequence ethical beliefs) is maintained? Indeed, when accepted moral standards are violated, trust will suffer. Trust is defined as a psychological state in which people have confidence that others will act out of goodwill and take the interests of others into account (De Cremer, Snyder, & Dewitte, 2001; Mayer, Davis, & Schoorman, 1995). Unfortunately, to date, very little attention has been devoted to this issue of restoring trust after ethical failures. This is regretful because when ethical failures emerge, it is communicated that integrity is suffering and that acting out of goodwill is a problem. For this reason, a lack of ethics may erode trust (De Cremer, 2010b; De Cremer, van Dijk, & Pillutla, 2010; Desmet, De Cremer, & van Dijk, 2011). Hence, in circumstances of ethical failures the stakes are high because trust is an important antecedent of organizational performance (De Cremer et al., 2001). Companies that manage ethical failures well tend to preserve or even promote a trustworthy reputation (Pillutla, Murnighan, & De Cremer, 2009). Those companies that take a long time to respond to an ethical crisis may be permanently hurt in terms of their perceived trustworthiness.

The fourth challenge concerns the suggestion that, although the present article advocates the use of a descriptive approach in studying issues of ethics and morality in organizations and business, we do not wish to make the claim that we have to leave prescriptive approaches behind or consider it as a field with limited value. Contrary, we wish to point out that to further our understanding with respect to the why and how of

(un)ethical behavior requires an integration between the prescriptive and descriptive approaches. As Warren and Smith-Crowe (2008) wrote: “while behavioral ethics is descriptive rather than prescriptive, good social science requires a thorough understanding and definition of one’s construct -- researchers only want to predict and describe ethical behavior, but in doing so, they must define what is ethical, and, therefore, they must be in some sense prescriptive” (p.84). Brief (2012) notes that too little consideration to what constitutes right and wrong has left the field of descriptive business ethics occupied with the obviously wrong. By drawing on the prescriptive ethics literature behavioral business ethics can move beyond the extremes of scandal and explore a hinterland of ethically more complex phenomena. An example can be found in Harbour and Kisfalvi (2014) who build on virtue ethics literature to examine empirically what constitutes courage in an organizational context. The work of moral philosophers is used to develop conceptual boundaries of the courage construct, rather than mere references in passing. Indeed we need to be able to define what an ethical decision implies in terms of its meaning and content, or else behavioral business ethics runs the risk of talking about anything and nothing at the same time (De Cremer & Tenbrunsel, 2012) and become a “field without meaning” (Tenbrunsel and Smith-Crowe, 2008, p. 551). On the one hand, the descriptive approach needs the prescriptive one to give it a sense of direction. For example, we discussed the importance of ethical climates in organizations. The descriptive work on organizational justice shows that people are not only concerned about justice being done to them but also to others. Hence, an important task for organizations is to create procedurally just climates that affect employees’ perceptions and expectations that others in the organization act in moral and ethical ways

(De Cremer, van Dijke, & Mayer, 2010; Tenbrunsel et al., 2003). A prescriptive approach such as Habermas' dialogue ethics can be informative as to how to start building exactly such just procedures (Unerman & Bennett, 2004).

On the other hand, the prescriptive approach needs the descriptive one. It is the latter that is the content of the former. All ethical theories stem from an attempt to theorize ethical 'intuition': what is it about a situation that makes it (un)ethical, how can we know what is ethical. For example, Kant developed his theory in an attempt to circumvent a religious foundation for the human knowledge of what is good because he was disgusted with religious wars that had caused so much suffering in Europe. Rawls sought to defend the notion that the state would secure its citizens' well-being without imposing on those citizens how they should define their well-being. An example closer to the business ethics field can be found in the prescriptive literature on whistleblowing. In the 1990s Miceli, Near and Dworkin conducted extensive descriptive research on whistleblowers (for an overview see Miceli, Near & Dworkin, 2008). This work has caused a huge shift in how prescriptive business ethics discusses whistleblowing. For example, Vandekerckhove and Commers (2004) use the descriptive research to argue how the debate around loyalty was a mistaken one. Also, descriptive ethics research is used to provide complexity to normative *prima facie* positions on whether whistleblowing is a right or a duty, and what the implications are for implementing such policies (Tsahuridu & Vandekerckhove, 2008; Vandekerckhove & Tsahuridu, 2010). Over a time span of only two decades, descriptive ethics research has shifted normative discussions around whistleblowing from a focus on the whistleblower to a focus on the

recipient of whistleblowing (Brown, Vandekerckhove & Dreyfus, 2014; Vandekerckhove, Brown & Tsahuridu, 2014).

#### In conclusion

The aim of this paper was to recast prescriptive and descriptive business ethics in light of one another. Although much progress has been made in understanding why people care about ethics and morality and the resulting use of moral values and codes of conduct in creating ethical climates in organizations, the present paper argued that in addition to more prescriptive approaches we also need descriptive approaches that zoom in on the psychological underpinnings of why good people can do bad things. Improving our insights into why people show good and bad behavior will enable us to prevent or (if prevention is not possible) manage ethical failures and promote towards the future. We hope that this message will motivate organizational researchers to take up the challenge to develop more comprehensive theoretical models of (un)ethical behavior that are both informed by moral philosophy as well as have clear practical implications to improve organizational functioning and sustainability.

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