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# MASTERARBEIT

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’A man without ethics is a wild beast loosed upon this world’ – Organizational and Individual Dynamics of Unethical Behavior in Business Life

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**Abstract**

The aim of this thesis is to discuss the topic of business ethics in a deeper context and provide an overview on the legal situation in the leading five industrial countries as well as the reasons and consequences of unethical actions in business life. From those insights, the paper presents a new model to implement business ethics in a company.

The first part of his paper addresses and clarifies terms and definitions that are important when discussing the topic of business ethics.

In the following part, the difference between ethics and the law is carved out and the different legal situations in the leading five industrial countries – the United States, China, Japan, Germany and France – are discussed in greater detail.

In the third part, it is the aim to understand the reasons explaining unethical behavior and actions in business life, although people are often very well aware of the dramatic consequences of their wrongdoing. The paper therefore differentiates between environmental and also personal aspects causing unethical behavior and then also discusses the consequences of people's ethical wrongdoing.

Finally, a new model to implement business ethics is presented, which is based on three pillars including individual, formal and informal aspects.

**Keywords**

Ethics, Morality, Business Ethics, Regulations, Corporate Social Responsibility, Reasons and Consequences of Unethical Behavior, Implementation of Business Ethics

## Kurzzusammenfassung


Die Absicht dieser Arbeit ist es, das Thema der Wirtschaftsethik ausführlich zu erläutern und einen Überblick zu den gesetzlichen Rahmenbedingungen in den führenden fünf Industrienationen sowie zu den Gründen und Auswirkungen von unethischem Verhalten zu liefern. Darauf aufbauend wird in dieser Arbeit ein neues Modell zur Implementierung von Wirtschaftsethik in einem Unternehmen präsentiert.

Im ersten Abschnitt der Arbeit werden für das Thema Wirtschaftsethik relevante Begriffe definiert und erläutert.

Im darauffolgenden Teil wird näher auf die Unterschiede zwischen Ethik und Gesetzen eingegangen und zudem die gesetzliche Lage in den führenden fünf Industrienationen – darunter die Vereinigten Staaten, China, Japan, Deutschland und Frankreich – näher erläutert.

Der dritte Teil erfasst sowohl die Gründe hinter unethischem Verhalten, als auch deren oft sehr dramatische Auswirkungen. Es wird dabei explizit zwischen Faktoren unterschieden, die auf jene Personen durch deren Umwelt einwirken und ebenso jenen, die die Person selbst betreffen.

Schließlich wird in der Arbeit ein neues Modell zur Implementierung von Wirtschaftsethik, welches auf drei Säulen basiert, präsentiert. Davon widmet sich eine den persönlichen Faktoren von Personen, während zwei weitere Säulen auf formelle und informelle Aspekte eingehen.


## Schlagworte


Ethik, Moral, Geschäftsethik, Gesetze, Corporate Social Responsibility, Ursachen und Folgen von unethischem Verhalten, Implementierung von Wirtschaftsethik

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# 1 Introduction

‘A man without ethics is a wild beast loosed upon this world’ is a quote by the French-Algerian author and philosopher Albert Camus, who was awarded a Nobel Price in Literature in 1957. His life was very much affected by the two world wars and the interwar period, which might have contributed to his lifelong devotion to moral and ethical issues.
Today, almost 70 years after the end of the Second World War, the topics of morality and ethics have become just as decisive as they were at Camus’ time.
Following the many corporate scandals in the past decades, among them the New Economy Bubble around the turn of the millennium and also the recent Subprime Crisis of 2008 that caused the tumbling of the world-wide financial system, ethics and the call for more ethical ways of doing business constitute a topic of frequent discussion in public media.
Recently, a newspaper article published in the New York Times, gave a deep insight on business practices in one of America’s leading investment banks: customers being insulted as ‘muppets’ and trying to make the most money out of them rather than helping them and therewith ensuring a bilateral long-term, successful relationship, where both sides benefit. Other famous examples include the Italian food producer Parmalat and the American energy commodities and service company Enron that resulted in huge financial losses for the firms’ shareholders.

The popularity of ethics and business ethics nowadays has led to the publication of broad research on these topics. Because of the width and many different facets of those issues, research mostly focuses on single aspects of unethical misconduct. Therefore, this paper aims at providing an overview on the complex of problems related to the field of business ethics, brings together existing research and discusses this topic in a broader context.

The paper will first of all provide a definition of terms that are closely connected to the field of business ethics and that are frequently used when discussing this topic.

To get an idea of the legal situation in the leading five industrial countries and also to understand the regulators' efforts to fight unethical business behavior, the different national frameworks will be discussed and analyzed and breaches associated with those regulations will be identified.

In the next step, the interpersonal processes and roots explaining unethical business practices will be identified to understand what drives people to behave unethically, therewith risking dramatic consequences for both the organization and individuals, which in extreme cases can cause the collapse of the whole firm and business sector and even the death of thousands of people.

The subsequent part will concentrate on the consequences related to unethical behaviour and actions in business life. On the one hand, people involved in unethical misconduct are often confronted with severe personal consequences that can directly affect their personal well-being. On the other hand, those actions can also have dramatic consequences for the firm, which can ultimately lead to criminal and civil charges as well as the firm's bankruptcy.

Finally, the paper presents a new model for implementing ethical policies in the entrepreneurial practice. Therefore, aspects will be discussed considering both individual factors that are related to an individual's contribution to business ethics within a firm and also to organizational factors including formal and informal aspects provided by the firm that must be met in order to establish a business ethics framework within a company.

# 2 Definition of Terms

## 2.1 Morality

Although there is broad literature about morality and many people agree on the importance of morality, there is very little agreement on what the term ‘morality’ really means. What most of the different interpretations have in common is that they relate the term to notions of right and wrong. It describes what people should do or what they should better avoid doing.

One central difficulty when trying to define morality is that it is constantly evolving over time. Nisan (1991) argued that moral behavior is driven by an individual’s moral balance: people consider their past moral and immoral actions within a given timeframe before engaging in questionable behavior.[1] Monin (2007) adds that an individual’s behavior is also guided by other people’s behavior: people who observe others doing good get inspired by those actions. On the other hand, people also deem the behavior of others as irrelevant if it is vastly superior to their own morality.[2]

People create their own understanding using their own past actions but they are also affected by others’ actions in everyday life, which constantly change an individual’s perception of morality. Usually, people living together in a society share the same or at least a similar understanding of morality to facilitate communal life.

Morality is also closely linked to cultural aspects of a society. Trompenaars (1993) found out that when providing members of different cultures with moral dilemmas, those people act quite differently reflecting their different understanding of morality. Therefore, they asked 15,000 managers in 28 different countries all over the world: Not surprisingly, North Americans and North Europeans pretty much had the same understanding of what was moral

[1] Nisan (1991), p. 283-313

[2] Monin (2007), p. 53-56

and what was not, but there were severe differences in the understanding of morality in many other countries. So it happens that for instance in one culture contracts are seen as very definitive, whereas in another it represents rather a rough guideline, and therefore it is not mandatory to fully stick to the terms of the contract.[3] In the end, this can leave room for misunderstandings or could even result in somebody being seen as acting unethically in one culture although it is in line with one's own personal culture and values.

Eckensberger (2007) adds that 'morality is a constitutive feature of the culture concept as well as of concrete cultures.' According to him, 'the study of morality necessarily leads to a perspective that conceives of psychology as a primarily cultural science rather than as a natural science', stressing again the strong impact of cultural aspects on the understanding of morality. The whole concept of morality cannot be understood without reference to the culture concept and 'it is not only a central aspect of culture, but also unique to humans.'[4]

What renders matters even more complicated is the fact that individuals can have various understandings of what morality is depending on their environment. What is seen as morally correct in private life does not necessarily need to be the same in professional life.[5] People can have very different sets of values depending on their environment according to which they act and consider their doing as ethical.

## 2.2 Ethics

In everyday life, the terms 'morality' and 'ethics' are often used in the same way. Also Grace and Cohan (1998) see both terms as synonyms.[6] Nevertheless, many other writers and researchers provide different definitions for both terms. Most of the time, the most significant difference is seen in the point of view:

[3] Trompenaars (1993), p. 29ff

[4] Eckensberger (2007) in Zheng et al. (2007) p. 25ff

[5] Crommelin (2007), p. 42

[6] Grace/Cohan (1998) in Svensson/Wood (2003) p. 350

morality only cares about the personal view of an individual, whereas ethics refers to aspects being considered as good and desirable from the point of view of a group or a whole society. It was also described as an 'interchange of views about individual belief systems among citizens of any culture.'[7]

A moralist usually needs not worry about his actions being acceptable for others as long as they are consistent with his personal interpretation of morality. Morals can be personally considered as good and there is no need or pressure to achieve collective goals in society. In contrast to this, ethics always has to have demonstrable positive effects on others and society.[8]

Ethics was also interpreted as the study of morality and the application of reasons behind a certain behavior. It tries to clarify the principles that determine right or wrong for a given situation.[9]

Similar to morality, ethics is very much dependent on cultural and time aspects. Each culture determines what is acceptable and what is not, which usually results from its past experience and consequently it constantly evolves over time.[10]

## 2.3 Business Ethics

Business nowadays has a stronger impact on societies than ever before in the past. Business heavily affects societies by providing employment, goods and services as well as supporting growth and taking growth opportunities in the economies. On the other hand, business malpractices also have the potential to seriously harm and destroy individuals, societies, economies, as well as the environment.[11]

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[7] Svensson/Wood (2003) p. 350

[8] Gupta (2006) pp. 32-34

[9] Crane / Matten (2007) p. 8

[10] Svensson/Wood (2003) p. 351-353

[11] Crane / Matten (2007) p. 9-11

There is a very broad range of what is considered as unethical behavior in business life, ranging from only small distortions of the truth to actions that can result in deaths of thousands as a consequence of an industrial disaster or massive pollution of the environment.[12]

More generally, Crane and Matten (2007) state that the subject of business ethics has the important role to systematically study and provide answers to ethical questions in everyday business life. Therefore, situations, activities and decision in business life, where issues of morally right or wrong are addressed, have to be studied.[13]

Gibson (2007) differentiates between two different meanings of business ethics: the first meaning says that business ethics is rather describing the rules of the game, appealing people that take on behavior of the workplace or environment they are in instead of relying on their own personal judgment. Accordingly, if it is the firm's goal just to comply with law and not doing anything illegal, employees might behave accordingly if this behavior is promoted within the firm. The second one states that everyone has a single set of personal standards to differentiate between good and bad behavior and should apply this set throughout every aspect of his life also including business life, although in business life new or special decisions that cannot be found elsewhere in a person's life often require special assessment.[14]

Furthermore many people have different sets of personal standards depending on their environment. This makes people sometimes behave very differently in professional than they do in private life, because firms may require different standards than the personal ones may be.[15]

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[12] Sivaprakash / Sakthivel (2011) pp. 38-43

[13] Crane / Matten (2007) p. 5

[14] Gibson (2007) p. 6-7

[15] Crommelin (2007), p. 42

## 2.4 Corporate Social Responsibility

Corporate social responsibility refers to a concept that says that firms have further responsibilities to society besides just generating profits and maximizing returns to its shareholders. Usually those responsibilities are linked to consumers, employees, government and also the natural environment – in other words, dealing with ethical issues on a company level. Aspects of the concept can be traced back to the 1930s and 1940s[16] and the topic became especially popular in the recent past following some major corporate scandals.

Bowen (1953) was the first to describe the term of corporate social responsibility: 'It refers to the obligations of businessman to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.'[17]
Carrol (1991) later provided a definition of corporate social responsibility by using a legal, ethical, economic and discretionary dimension, calling it 'the pyramid of corporate social responsibility': The economic dimension refers to the firm's task to produce goods and services that society wants and to sell them and maximize profits for its shareholders. The legal dimension focuses on the rules of the game within modern business life. It is the firm's duty to comply with the law and regulations that society has formulated as the ground rules of doing business. The ethical responsibilities embrace those activities and practices that are expected or prohibited by societal member even though they are not codified into law, but often become the driving force for the future creation of new laws and regulations. Ethical responsibilities in general are badly or not even defined, which makes it so difficult to act in accordance with them. Finally, the discretionary dimension includes corporate actions that are expected by a society and accordingly make the company a 'good corporate citizen', such as voluntarily engaging in human welfare programs. Those are not required by law and at the same time society usually does not expect them from

[16] Shaw (2012) p. 2

[17] Bowen (1953) p. 6

a firm. So, by not engaging in those voluntary actions, a firm is usually not automatically considered as unethical.[18] A moral manager consequently has a strong sense of his moral obligation towards society because it is exactly this 'moral obligation that holds society and the business system together.'[19]

The definition most frequently used was developed by the Commission of the European Communities (2001) and defined corporate social responsibility as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.'[20] This definition includes the dimensions of economic, environmental, social and stakeholder issues and also stresses the voluntariness associated with this topic.

Although those definitions sound very similar, the one published by the Commission of the European Communities adds the dimension of environment. Dahlsrud (2006) argues that environmental issues cannot be found in many other definitions either, due to a frequent differentiation between 'corporate social responsibility' and 'corporate environmental responsibility'.[21]

In the not so far away past, leading economists like Friedman (1970) have argued that 'in a free society there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.'[22] Chamberlain (1973) made the conclusion that 'every business is in effect 'trapped' in the business system it helped to create…hence the dream of the socially responsible corporation that replicated over and over again can transform our society is illusionary.'[23]

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[18] Carroll (1979) p. 499-500

[19] Carroll (2006) p. 282

[20] Dahlsrud (2006) p. 7

[21] Dahlsrud (2006) p. 5

**[22] Friedman (1970) p.**

[23] Chamberlain (1973) in Ronnegard (2006) p. 210

Milgrom and Roberts (1992) also stress that 'the economic system is judged on how well it satisfies the economic needs of the population.'[24] Again, business shall rather focus on rational targets and use resources most efficiently to meet economic targets than anything else.
Later, McWilliam and Siegal (2001) argued that a firm whose governance structure is functioning properly with respect to shareholders, meaning putting more weight to the shareholders' interest, should only engage in those projects that really enhance or protect this firm's position in its relevant business fields. [25] Accordingly, there is no need to behave morally or ethically correctly.

When looking at the features of capitalism, which is the dominant economic system in the world, it may be argued that this system based on consumption and the power of corporations has definitely made goods and services more affordable and generally speaking has lead to a higher standard of living in developed countries. On the other hand, it fosters constant consumption while having only limited resources, thus leading to a growing imbalance of rich and poor and also leading to a huge rise of corporate power. The whole economic system is primarily based on the assumptions that people act in self-interest, that consumers demand things to increase their personal well-being, that competition is good and the market rewards those that are industrious and innovative, that economic growth should be fostered and finally that it makes everyone better off by its invisible hand functions. The reasoning of this argumentation follows the idea that buyers and sellers both try to be better off in any transaction, consequently forcing the sellers to improve their goods while trying to offer them at a lower price. In doing so, sellers try to maximize their profits whereas buyers want to save as much money as possible when buying a good or service. In the end, both are acting fully in self-interest but it makes both sides of the transaction better off.[26]

[24] Milgrom / Roberts (1992) p. 22

[25] Jones / Haigh (2006) p. 2

[26] Smith (1759) pp. 263-278

Following this central aspect of capitalism, there is no need for ethical behavior or ethical questions are simply left unanswered in modern corporations. Consequently, a company's only task is to react to pressure coming from regulators and shareholders in order to stick to legal issues and maximize profits.[27]

After big scandals in the years following the turn of the millennium, among them Enron and WorldCom, two huge accounting scandals, and many others in the following years peaking in 2008 with the breakdown of the American investment bank Leman Brothers after heavily engaging in risky bets on the capital markets and massive mispricing of capital markets instruments, the call for a more ethical business climate became louder and louder in the public. Governments often had to step in to avoid banks and the whole financial system as such from collapsing, which resulted in countries tumbling under debt burdens causing economies in Europe and America being threatened by high refinancing costs in capital markets and accordingly even with bankruptcy.
As a result of these incidents from the recent past, the public and media have heated up a broad discussion about those morally questionable business practices that often just only follow the one single goal of increasing the company's profits, no matter at what price.
It seems that it has become increasingly important for a firm in the last years not just to increase returns for its shareholders, but also to make the 'right' decisions in accordance with the ethical and moral standards of society.

Smith (1990) reasons that the argument of management not maximizing profits for its shareholders by engaging in a social responsible behavior, neglects the fact that there is a difference between short term and long term prospects for a firm. Although acting socially responsibly may reduce profits in the short run, it can have positive effects in the long run like, for instance improving its public reputation or just increasing customer loyalty. Furthermore, profitability does not say anything about the efficient usage of resources, which is important as

[27] Gibson (2007) p. 53-60

resources are usually limited. He stresses that economic activity can have negative side-effects that require self-regulation by acting socially responsibly.

Besides the profit maximization argument, it is often argued that social issues are the concern of the government. Following this argumentation, firms pay a lot of taxes to the government and accordingly can expect them to use this money to take care of social issues making it unnecessary for firms to engage in those. **Simon et al.** counterattack that if firms find a way to solve those problems themselves, this will minimize the role of the government and it is pluralistic, which is usually preferred by the firms. [28]

Today's business life seems to support activists of more ethical business practices. Firms nowadays often put a lot of efforts in building a good public picture of their social responsibility as media punishes any misdoing by providing bad publicity.

In the end, the capitalist principles still hold. If the public demands more moral and ethical business practices, it is of utmost interest to the firm to react and adapt to these demands by the buyers' side. Consequently, if the firm wants to maximize profits, it seems that nowadays it has to engage in more responsible behavior.

[28] Smith (1990) p. 69-71

# 3 Ethics and the Law

As ethics and morals both deal with the question of actions, behavior or decisions to be right or wrong, the question might arise what exactly the difference to the law is: usually the moral understanding of a society is reflected in its rules and regulations as well as its value measures and ideals.[29] The law usually is a codification of these rules and regulations, in which the legislative authority defines norms that are controlled and punished in case of not complying. However, value measures and ideals are not always reflected in the law and rather deal with an individual's personal attitude, which forms its behavior. An individual's understanding of morality and ethics is not part of any legislation. Law might be said to be more like a 'minimum acceptable standard of behavior' and so behaving in accordance with the law does not necessarily imply that the behavior is morally and ethically right.

Usually, business ethics rather deals with those topics that are not explicitly covered in law.[30] And although many aspects of ethics are not codified, the understanding of ethics in a society usually reflects a common public opinion on how people shall behave. It can be more seen as some kind of guideline for the members of a society or community, whereas the law represents strict rules that are controlled and in case of not behaving in accordance with them, the legal authority punishes this misbehavior. In the end, moral and ethics can affect and provide basis for future legislation and regulation.

Owens (2013) addresses the topic whether unethical behavior in business can be fought by using legislation. She stresses that – although business laws in a way shape desired behavior of firms and set basic standards to business practices – laws do not fully protect people from unethical business decisions by firms. She argues that laws and regulations constantly have to be added and changed in order to fully support ethical business practices, which is for many reasons difficult or almost impossible. Among those reasons, the author

[29] Göbel (2006), p. 7

[30] Crane / Matten (2007) p. 5

identifies the problem of what is considered as unethical and what is not. It is a term that constantly changes over time 'as business world discovers newer and better ways to achieve desired results.' Another problem can be found in identifying unethical situations that are widespread enough to require legal attention. Finally, corporations and business leaders will always find loopholes in the existing legislation to achieve better results even if this causes higher danger to others. [31]

# 4 Regulations in Leading Industrial Countries

Although there is an ongoing public discussion on ethical behavior in business life and the corporate social responsibility of firms, so far there is no unitary worldwide framework that demands firms to behave in accordance with clearly defined rules and regulations.

Nevertheless, there are different initiatives like the Global Reporting Initiative that provides a framework to establish sustainability reports, or the United Nations Global Compact that demands firms worldwide to stick to core principles like respecting human and labor rights, to fight corruption and respect the environment. Other attempts include governments providing guidelines for establishing a Code of Ethics in a company and international organizations like the International Ethics Standards Board for Accountants expedite an internationally appropriate code of ethics for a professional category.

Generally, every country has its own attempts on how to deal with ethical issues on a company level, whereby some aspects are regulated by law and others – which holds true for most issues related to ethical or corporate social responsibility issues – only have rough guidelines that the market participants decide voluntarily whether they adopt it or they do not.

It is the aim of this section (of the thesis) to provide an idea of the current situation in the leading five industrial countries and the way they are handling ethical issues and problems.

[31] Owens (2013) pp. 39-40

## 4.1 United States

Historically, the Security and Exchange Commission was established in the United States after the stock price crash in 1929, in order to provide federal oversight to the individual states' legislation. Its core duty was to protect shareholders and also to maintain fair and efficient markets. In fact, this system allowed firms in the United States to be regulated without much bureaucrazy.[32]

This system seemed to work pretty well and consequently was maintained for quite a long period. Generally, there are concerns of negative effects of too much regulation on the economy, as it could lower American firms' flexibility when competing internationally with other firms that do not have to comply with those laws and the costs associated with it.[33] Everything changed after the big crash in 2001 following several high-scale corporate scandals, where firms like Enron and WorldCom collapsed spectacularly. This resulted in much higher federal regulation, which is generally known as the Sarbanes-Oxley-Act (2002).[34] The aim of this act can be summarized in the idea of regaining consumer's and investor's confidence in the numbers and statements provided by firms to them. It sets strict standards to corporate disclosures and therewith aims to increase reliability and transparency and to punish people when not complying with them.
The consequences of the new regulation in particular include the following:

- Every publicly listed firm has to create a board to supervise its accounting operations, a so-called Public Company Accounting Oversight Board.

[32] **Tricker (2012) pp. 111-114**

[33] Tschopp (2005) pp. 57-58

[34] **Tricker (2012) pp. 111-114**

- Companies have to conduct much stricter internal controls to make sure that its operations is in accordance with American legislation and also to make sure that the numbers and figures published are reliable, therewith providing better information to the firm's stakeholders.
- Firms have to certify their financial statements and disclosure reports.
- Companies have to introduce an audit commitee represented by independent directors who supervise the company's financial transactions.
- New, stricter regulations on insider trading were introduced.
- The act also required firms to provide more transparency related to their public disclosures and also to provide it faster to the public than before.
- Whistle blowers were from there on protected by the law and the new law also restricted document destruction.
- Finally, criminal and civil penalties were introduced in order to prevent people and firms from not complying with existing law.[35]

Although there was a lot of criticism against this law - mainly due to the costs associated with the necessity to mandate legal and accounting firms, to provide employees with additional trainings and also to make use of external advisory – in the end many firms stated that the Sarbanes-Oxley-Act had positively contributed to a reduced risk of financial fraud and also made the financial reports more accurate than they were before.[36]

After the big financial crisis in the subsequent years of 2008, the American government enacted further federal regulations, known as the Dodd-Franklin-Wall-Street-Reform and the Consumer Protection Act of 2010. Generally speaking, it aimed at restoring the credibility and responsibility of the financial system after the scandals had revealed big business malpractices especially in the financial sector, which resulted in public bailouts borne by the American taxpayers.

[35] Bainbridge (2007) p. 2

**[36] Tricker (2012) pp. 111-114**

The highlights of this piece of legislation included the following:

- A new supervisory body at the Federal Reserve was created to improve consumer protection by making sure that consumers have access to 'clear, accurate information they need' on any financial product and also protecting them from 'hidden fees, abusive terms and deceptive practives.'[37]
- The new regulation also aims to set an end to public taxpayers being forced to bail out financial firms due to their bankruptcy threatening the whole economy. Therefore, new capital and leverage requirements as well as new supervision were introduced to protect the whole American economy and its participants.
- It adresses systemic risks and therefore introduces a council that deals with issues that might negatively affect the whole economy's stability.
- It also regulates the transparancy and accountability for exotic instruments including over-the-counter derivatives, asset-backed securities, hedge funds and others that were unregulated before and allowed firms to take on huge risks without anyone else noticing.
- In terms of executive compensation and corporate governance, it gives shareholders the right to join in the discussion of executive compensation.
- Credit rating agencies are directly affected by new rules that aim to increase their transparency and accountability and therewith making ratings more reliable for investors.
- Regulatory bodies are strenghtened to be able to better supervise and fight 'financial fraud, conflicts of interest and manipulation of the system.'[38]

[37] http://www.banking.senate.gov/public/_files/070110_Dodd_Frank_Wall_Street_Reform_comprehensive_summary_Final.pdf

[38] http://www.banking.senate.gov/public/_files/070110_Dodd_Frank_Wall_Street_Reform_comprehensive_summary_Final.pdf

Reflecting these regulations in the United States, it becomes obvious that there is a growing interest in fighting corporate malpractices including many forms of unethical behavior following the big scandals of the past decade.

But still, it only affects very few aspects of corporate unethical behavior and so far there is no framework or clear regulation in the United States that requires companies to engage in corporate social responsibility or behave ethically. Compared to other countries including Japan and European Union countries, American firms still hardly publish corporate social responsibility reports.

Nevertheless, there is a rising trend for firms engaging in corporate social responsibility and also publishing reports on it for its shareholders and stakeholders. Dawkins and Ngunjiri (2008) identified three key reasons for this rising trend in the United States: American firms want to ensure that their activities are in accordance with social norms and communicate organizational values and their engagement to the public and stakeholders.[39] It really seems that American firms have clear incentives to act more ethically and communicate this voluntarily to the public than they had in the past, which might be a result of the American public being more sensitive to this topic following the ongoing scandals of the last decade.

## 4.2 China

In the past years, China has faced ongoing discussions on broad aspects of business ethics and corporate social responsibility of firms doing business there. Employees committing suicide, child work and horrible working conditions as well as massive pollution of the environment are just some aspects that have demonstrated a lack of business ethics and corporate social responsibility in China.

Historically, almost all firms in China were state-owned until 1978. After a wave of privatizations in the 1980s and 1990s, China became a member of the World Trade Organization in the late 1990s and extended private ownership to foreign

[39] Cecil (2010) pp. 44-51

direct investments. This seemed to raise concerns on corporate social responsibility practices in China for the first time and it also seemed that this did not bother the Chinese government very much until several scandals were made public in the last few years.[40]

In fact, today, the Chinese system to foster corporate social responsibility and therewith more ethical business practices is not so different from that of other developed countries. In 2005, China introduced the Harmonious Society Policy, which led to a drastic change in views on how business should be conducted. It changed the picture from an approach that was primarily focusing on economic growth to an approach that valued societal balance and harmony as other key goals that should be pursued by companies. Article 5 in the Chinese Company Law even requires firms to adopt social responsibility when conducting business.[41] Therewith, acting socially responsibly is codified in law in China, which is an aspect that cannot be found in any other legislation of developed countries like the European Union, Japan or the United States, where – despite ongoing public condemnations after ethical misconduct – it is usually considered to be voluntary.

In 2008, China introduced the 'Basic Regulations on Enterprise Internal Control', which is a major basis for firms' better accountability and also for making them more transparent. Also monitoring and audit processes have been performed more and more by regulatory bodies in China in the recent past. China also enacted the Property Rights Law in 2007, providing a 'basic framework for protection of property rights', and announced to fight corruption savagely.[42]

China's fast industrial development in the last years has significantly contributed to the country's enourmous economic growth, but on the other hand also has dramatically contributed to China's problematic situation in terms of

[40] Sarkis/Ni/Zhu (2011) p. 1

[41] Lin (2010) in Sarkis/Ni/Zhu (2011) p.1

[42] Mallin (2011) pp. 232-246

environmental issues. The World Bank ranks 16 of China's cities among the 20 most polluted cities worldwide.[43] Earlier, the World Bank has linked the loss of crops, fisheries, water pollution and even the drastically increasing human health costs to the bad environmental situation in China.[44]

When it comes to environmental regulations, it may be surprising that China has actually quite broad rules and regulations on that. The problem with all those regulations is primarily that they are often voluntary or if not, there is generally a lax enforcement of applicable law in China. Nevertheless, Chinese firms are often also affected by other countries' regulations, forcing them to apply international standards when it comes to corporate social responsibility and business ethics. This holds for instance true for some of the European Union environmental laws that ask firms doing business in or just exporting to the European Union to apply the same standards that are demanded from European Union companies.[45] A similar situation appears when Chinese firms become part of a transnational corporation's supply chain. Usually those huge firms are forced by their consumers and stakeholders to engage in corporate social responsibility and apply a minimum standard of business ethics in their operations. This consequently also holds true for the firms that are doing business with forcing Chinese firms to apply international standards.[46]

Another very interesting aspect of corporate social responsibility in China can be found in private firms more and more actively engaging in corporate social actions voluntarily. The explanation for this phenomenon lies in China's history: traditionally, private firms were seen as opponents of the Communist Chinese society. Accordingly, private firms seek opportunities to enhance their public reputation by engaging in high-profile corporate social responsibility activities

[43] http://www.independent.co.uk/environment/green-living/beijing-is-left-fighting-for-breath-as-pollution-goes-off-the-scale-8471743.html

[44] http://www.worldbank.org/en/news/press-release/2007/07/11/statement-world-bank-china-country-director-cost-pollution-china-report

[45] Sarkis/Ni/Zhu (2011) p. 1

[46] Sarkis/Ni/Zhu (2011) p. 2

including social projects related to education and training, health care, employment but also to reduction in poverty among other social programs.

From the above, it might seem that China has already a high standard when it comes to ethics in business and corporate social responsibility. In fact, this does not hold true at all. In the past few years, there has been a trend in China that has definitely motivated firms to apply better standards in various aspects of corporate social responsibility. The Chinese government seems to make it a goal for its country to foster this trend and develop China from its sole goal, which has been economic growth for many years, to a societal balanced and more harmonized economy. This is very much reflected in its current 12$^{th}$ five-year plan that was introduced in 2011. There, China's government explicitly stresses that the focus must not only be on growth but also on sustainability, including a reduction in industrial pollution, the protection of natural resources, more ethical labor practices, development of eco-friendly products and more efficient usage of energy. The Chinese government also invests a lot in the development of sustainable technology parks that shall foster green technology. With this new five-year plan, the government very much responds to consumers in China more and more demanding eco-friendly products and more ethical labor practices.[47] Although the new five-year plan already reflects many ethical issues and it really seems that there is a clear trend in China that promotes a more ethical business environment and firms' positively contributing to the community via corporate social responsibility initiatives, there are still big issues the Chinese government has to deal with in the near future including the promotion and protection of human rights.

For the future, China still faces lots of challenges related to corporate social responsibility, including insider control and monitoring, its weak enforcement of regulations, stronger protection property rights, transparency, as well as establishing a corporate culture that appreciates human rights, environmental

[47] http://www.amchamshanghai.org/ftpuploadfiles/Publications/Viewpoint/ Viewpoint_CSR.pdf

issues and sustainability.[48] But it has to be stressed that the Chinese market economy is still developing and has already developed quite impressively over the past years.

## 4.3 Japan

In the post-war time, Japan established a corporate social responsibility system that was significant for its economic success up to the 1990s. It was a system that was very much based on Japanese culture, including a strong sense of duty and loyalty. Japanese workers and managers rather saw a company as a community, unlike in the many Western countries, where it is often just seen as a vehicle for maximizing profits. This was very much reflected in permanent employment until retirement, in shareholders playing a secondary role compared to employees, suppliers, customers and business partners.[49] This very much shows an important aspect of the Japanese society. Relationships and memberships play a very central role. Japanese people generally have a very strong sense of duty towards those they have a relationship with or those they are sharing a community with. Usually, the closer the relationship is, the higher the sense of duty is. On the other hand, the sense of duty drastically decreases to others from outside.

This aspect of Japanese society has a very long tradition. Especially after the Second World War there was a strong consensus among Japanese people that the way to improve the society was to foster economic growth. Because this was a common idea among Japanese people, most actions that promoted economic development were seen as ethical, no matter if that meant ignoring environmental protection or the rights of minorities and women. Any misbehavior in that context was usually accepted by the Japanese society as long as it served the greater goal of economic development.

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[48] Mallin (2011) pp. 232-246

[49] Mallin (2011) pp. 247-266

In this post-war period especially up to the end of the 20th century, the Japanese economy developed very well. At the same time, huge Japanese firms that exported their goods and services almost all over the world were more and more confronted with the problem of the high value of the Yen compared to other currencies and on the other hands also with trade barriers, both being huge problems for Japanese exports. This forced Japanese firms to seek their luck in overseas production, which then confronted them with enormous problems related to issues of discrimination, safety, industrial espionage among many other factors that were usually not accepted in other countries such as the United States or European countries.[50]

As a reaction to this issue, a consept of 'kyosei' was introduced in Japan in 1992. It can be translated into the biological term of 'symbiosis', which in a more economic sense can be understood as 'living and working together for the common good'.[51] The concept of kyosei was very much promoted by Keidanren, the largest business association in Japan, and aimed at reducing trade conflicts in the United States and Europe. It included guiding principles for the following corporate social responsibility-related topics:

- Environmental protection
- Humanization of working conditions and the work environment
- Elimination of any discrimination based on race, religion or culture
- Appreciating interests of a firm's stakeholders
- Better adaption to local business and culture[52]

The whole concept of kyosei has very much affected the way business is done in Japan. Today, Japanese firms generally have a very high standard when it comes to corporate social responsibility. They are well-known all over the world for high quality and customer satisfaction, workplace safety and health

[50] Wokutch/Shepard (1999) p. 533-535

[51] Wokutch/Shepard (1999) p. 537

[52] Wokutch/Shepard (1999) p. 536-537

promotions among many others. But it must also be stressed that there are areas in corporate social responsibility that Japanese firms seem to ignore, including huge discrepancies in working conditions of workers, but also in gender equality issues and racism. At this point, the Japanese government has to think of establishing and enforcing laws and regulations to prevent firms from a 'selective development of corporate social responsibility' activity as it could be observed in the recent past.[53]

So far, the Japanese government usually only provides guidelines to firms to adress ethical problems in business life, which is a result of Japanese firms having a very close relationship with the government. The government provides extensive guidance to those firms rather than trying to legally control them. The same holds true for the government trying to encourage corporate social responsibilities. It rather gives vague guidance than strictly establishing laws or regulations, which ends up in a failure of conformity of corporate social responsibility methods and setting standards. Japanese firms consequently have strongly focused on corporate social responsibility issues that either improved their profitability or their reputation in the public.[54]

A study conducted by Fukukawa and Teramoto (2009) asked 22 managers dealing with corporate social responsibility-related issues from 13 different multinational Japanese companies – all of them listed among the top 50 companies in terms of their market capitalization in Japan in 2006 - on their understanding of definitions, the scope, purpose, forms, motives and difficulties in implementing the corporate social responsibility policies. Therefore, the authors conducted structured interviews lasting up to two hours. Generally, most of these Japanese managers were of the opinion that – although corporate social responsibility and the explicit usage of the term had only been introduced in the recent past – the issues corporate social responsibility had to deal with had been existing long before and were deeply rooted in Japanese

[53] Mallin (2009) pp. 134-139

[54] Mallin (2009) pp. 134-139

companies and the whole society. Japanese firms have a strong history of addressing environmental issues and also of social contribution of firms to society. Japanese managers argued that the main reasons for adopting the Western approach of corporate social responsibility and creating separate departments within the companies to address corporate social responsibility issues, can be attributed to globalization and demand for it from abroad on the one hand, but on the other hand also to the growing interest in Japan following big scandals in the recent past and the increased media coverage of the topic.
The interviews also showed that Japanese CSR-managers do not fully agree to the Western standardized approach, which – in their opinion - aims to fit for all. As stated earlier, most aspects of corporate social responsibility are seen as something that already existed long before the appearance of CSR in Western countries, but what changed significantly for Japanese firms is the necessity to apply Western standards.[55]

## 4.4 Germany and France

Germany and France both have a strong history of their social market economy. Other than in the United States, where state interference is usually seen as a bad thing, here it is publicly accepted that there are certain duties the state can more easily and better overtake than private firms in order to make society better off. This holds true for aspects related to the public health care system, but also for others such the public pension system. Consequently, one could expect the German or French government being responsible for taking over any aspect related to corporate social responsibility and therefore there should actually be no need for firms to engage themselves in corporate social responsibility topics. What might sound logical first does not apply for these countries. In fact, it even looks like those firms even put much more weight on aspects related to corporate social responsibility. A survey conducted by

[55] Fukukawa / Teramoto (2009) pp. 133-144

Welford (2004) identified 20 elements of corporate social responsibility including social and sustainable development-related initiatives and campaigns, implementation of a code of ethics, fair trade, protection of human rights, fighting of discrimination and others. In this study, the author asked companies from European, Asian and North American countries about their attitude towards those corporate social responsibility topics that were closely linked to aspects of ethical behavior. The result was quite surprising, as German firms were ranked number one in many categories, meaning they put the highest weight on all those issues. But also France was ranked very well when it came to fair trade, human rights and ethics. In general, Asian firms – with the exception of Japan - were quite far behind their European and North American counterparts when it came to ethical issues.[56] France was even one of the first countries that required publicly listed firms to publish corporate social responsibility reports.[57]

In 2001, the Commission of European Communities developed a so-called 'Green Paper' that promoted a European framework for corporate social responsibility. The European Union took care of this topic as it saw in it a very positive contribution to its primary strategic goal: "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".[58] The European Commission's aim was to launch a wide debate on the topic of corporate social responsibility in Europe. It saw the opportunity that by fostering this topic this would very much contribute to a positive development of European societies and also to meet its economic, sustainability and especially its social responsibility targets. The European Union therewith wanted to set a standard on corporate social responsibility practices.
In 2011, the European Commission published a renewed EU strategy for corporate social responsibility for the following years up to 2014. It included

[56] Welford (2004) pp. 33-52

[57] Tschopp (2005) p. 58

[58] Commission of the European Communities (2001) p. 3

suggestions for firms, European Union countries and other stakeholder groups that the European Union addresses in this time period. It includes the following issues:

- The Commission will further encourage firms to apply their own strategic approaches of corporate social responsibility by giving them higher public recognition. Therefore, it aims to set up multistakeholder CSR platforms and also promote an European award scheme.
- It also outlines that in Europe there is a gap between the citizens' perception of how companies behave in the business world and the reality, which is a result of recent scandals and crisis. Consequently, the European Commission addresses this problem by fighting misleading marketing and furthermore, it will initiate a public debate to increase common understanding. Finally, it will conduct surveys periodically to analyze the effects of those measures in improving the citizens' trust towards companies and their corporate social responsibility – related efforts. [59]
- In a next step, the European Commission tries to improve the effectiveness of the whole corporate social responsibility processes by further improving the firm's self-regulation processes but also its co-regulation processes, which are often based on codes of conduct created for a specific sector that addresses the CSR-related issues that are relevant and important in this specific industry or sector.
- To increase the market reward for firms that engage in good corporate social responsibility practices, the Commission will try to turn consumer's attention to the importance of corporate social responsibility and therewith make them more aware of possible price premiums they pay on certain products as a result of the companies' costly efforts to positively contribute to the community. It consequently will promote easy access to any information necessary for consumers to make informed

[59] Commission of the European Communities (2011) pp. 8-9

choices, but also to help consumers to act more responsibly when it comes to consumption.

Another important issue the Commission addresses to increase market reward for firms engaging in corporate social responsibility is the topic of public procurement. It seeks to integrate environmental and social criteria into public procurement, but also knowing that small and medium-sized companies then could be easily discriminated as a result of their limited resources available to engage in corporate social responsibility.

As 99% of European Union companies belong to the group this group of small and medium-sized companies, it seeks solutions to prevent them from being discriminated in public procurement processes, but at the some time better integrating social and environmental criteria.

Finally, the last aspect to enhance market reward for firms is a reaction to the recent financial crisis and requires 'all investment funds and financial institutions to fully inform their clients about any ethical or responsible investment they apply.'[60]

- The European Commission seeks to improve the current state of company disclosure related to social and environmental information that has to be provided to the firm's stakeholders and shareholders.
- In a further step, the Commission also provides financial support to better integrate the topic of corporate social responsibility into education, training and research in order to increase the awareness of the importance of this topic.
- Finally, the European Commission will foster better alignment of the European approach with other global one to enhance consistency.[61]

Generally, there is a strong focus on topics related to the aspects of corporate social responsibility. Companies are expected to engage in corporate social

[60] Commission of the European Communities (2011) p. 11

[61] Commission of the European Communities (2011) pp. 9-15

responsibility and sustainability and societies expect corporations to support the problem solving of social and human rights issues.[62]

But it also has to be stressed that in Europe so far there is no mandatory, unitary framework related to corporate social responsibility. The European Commission just provides a rough voluntary guideline on how to behave socially responsibly as a firm. Furthermore, it is also of the opinion that those aspects they address are best carried out via regional or national authorities[63], consequently making it unnecessary to adopt a mandatory, unitary framework for every European Union member state and the companies doing business there, which gives all aggrieved parties much greater flexibility when adopting corporate social responsibility into their strategic approaches.

[62] Bowie (2012) pp. 21-23

[63] Commission of the European Communities (2011) pp. 12

# 5 Reasons for Unethical Behavior

When looking for reasons explaining unethical behavior, it is very important to stress that the factors listed below rather represent some aspects of why people behave unethically than really explaining the roots of unethical behavior. In many cases, numerous different aspects affect people at the same time and therewith contribute to people’s unethical behavior. Accordingly, the appearance of any of the factors below does not necessarily result in unethical behavior or actions but can increase the probability of people acting unethically.
The reasons below were divided in environmental aspects, representing those factors happening in people’s environment including their workplaces but also their private lives, as well as aspects that reflect personal and psychological factors that support unethical decision making.

## 5.1 Environmental Factors

### 5.1.1 Organization-Centered Worldview

A worldview in general ‘refers to a set of beliefs that identify what objects or experiences are good or bad and what objectives, behaviors and relationships are desireable or undesireable‘.[64] The problem in today‘s societies is that they usually see businesses and firms as the core of the whole societal system. This worldview results in people only following their self-interest or organizational interests at any costs and with no respect to other stakeholders because if firms and businesses are doing fine, so is the economy. Money, power, status and wealth seem to be the top goals within this system and consequently greed, materialism and acting purely in self-interest seem to be considered appropriate and hardly leave room for ethical aspects. Surprisingly, no data exists that

[64] Koltko-Rivera (2004) in Giacalone/ Thompson (2006) p. 267

supports the idea that personal well-being increases by chasing these goals, but still people act like they could. Kasser (2002) found out that materialistic values are associated with lower personal well-being, poorer interpersonal relationships and also lower value for society as a consequence of people not positively (positively = 100%, fix, absolut, zweifellos) contributing to problems of the society if they do not see their own personal benefit. Within this system, there is only small room for ethics or moral. The key decision criteria are reflected in profits, profitability and market power, and only if those criteria are met, ethics is a selling point.[65]

Giacalone and Thompson (2006) therefore propose a change of the worldview – from organization-centered to human-centered worldview. Other than in the organization-centered worldview, in this approach not the business or profitability is in the core, it is the physical and social well-being of people within a society. Goals include improving the quality of life, social aspects and other concerns for the community. This does not mean that firms should not try to make money and increase profits, but it means that the financial success should be consistent with human needs. Consequently, what is considered a ‘good business decision‘ must meet both criteria: profitability and people’s well-being.[66]

### 5.1.2 Competition

Today’s business life is mostly based on capitalist principles that promote competition and competing with others in order to maximize one’s own benefits and strengthen one’s position within a market of interest. It is the ‘desire to be better, stronger, and more powerful than the others no matter what.’ [67] It is based on the on the classical school of economics being represented by Adam Smith and David Ricardo among others.

[65] Giacalone/ Thompson (2006) p. 266-270

[66] Giacalone/ Thompson (2006) p. 270-272

[67] Hoyk/Hersay (2008) p. 30

The argumentation of capitalist societies promoting this is a phenomenon called ‘the invisible hand’[68], describing a process in which people by just concentrating on their own benefit in the end make everyone better off. This line of reasoning holds true for aspects related to reducing costs and accordingly being able to provide society with cheap goods to increase their standard of living. [69]

Although one might follow this argumentation, competition is not just about maximizing one’s own benefits, it is also about being more powerful and dominant than others. It was first described by Blake and Mouton (1960) who observed in an experiment that in many cases making the right decision was not just about finding the best solution for the person him or herself, it was also about weakening the competitors’ position and embarrassing them. This proved true even if it meant that everyone was left with less afterwards. More often than not, this behavior led to a situation that was far away from an optimal solution that could have made everyone better off. In addition to that, participants of the experiment also engaged in unethical behavior in order to reach their targets in this highly competitive environment created within the experiment.[70]

The experiment conducted by Blake and Mouton (1960) can also be extrapolated to business life within capitalist societies, which are based on competition. It may be said that competition in a way creates unethical behavior or at least increases the motivation for behaving unethically to succeed in a competitive environment.

### 5.1.3 Authorities

There was a famous study by Dr. Stanley Milgram in 1960, who asked people to participate in an experiment, which they were paid for. The participants were told that this was a study aiming at observing how punishment affects learning behavior. For that, there was a person sitting on an electrical chair, connected

[68] Smith (1759) p. 263-278

[69] Shleifer (2004) p. 414-418

[70] Hoyk/Hersay (2008) p. 29-30

to electrodes, and the participants were asked to take over the role of the punishing supervisor in case the person was unable to answer the question correctly. The participants were put in front of a shock generator showing different switches ranging from the label ‘15 Volt – slight shock’ up to ‘450 Volt – Danger: Severe shock’. The person on the electrical chair was then continuously asked questions that it was unable to answer. Dr. Milgram then asked the participant to shock the person, increasing the Volt-level with every wrong answer. Although the guy on the electrical chair screamed and asked the doctor to stop, he continued the experiment. 65% of the participants kept shocking the person for wrong answers up to the highest level. What the participants did not know was that the person being shocked in front of them was actually just an actor and not connected to the shock generator.

Most companies nowadays follow a strict hierarchical organizational structure. Within this structure, employees usually have to follow certain instructions by their supervisors in order to keep their jobs. In the study, the participants barely knew Dr. Milgram and they were aware that they might never see him again after the experiment. The situation certainly is even more difficult for people in everyday work life: with their jobs, futures and families’ welfare at danger, employees certainly have a much harder time assessing how ethical or unethical the instruction given is and whether they should follow it or not. [71]

### 5.1.4 Goal Setting

On the one hand, goals in general can be inspiring to push one’s career and achieve a better status within the firm. The role of goal setting is broadly discussed in literature, it is mostly viewed as an important tool to keep people motivated and make them work hard for reaching goals.[72]

[71] Hoyk/Hersay (2008) p. 17-20

[72] Locke / Latham (1990) in  Schweitzer et al. (2004) p. 422

On the other hand, it rather makes people behave unethically by cheating and lying if there are difficulties to reach an important goal.[73] Schweitzer, Ordonez and Douma (2004) have observed in their studies that people that do not meet the goals set by the corporation are more likely to behave unethically or engage in unethical behavior.[74] Jensen (2003) furthermore discussed the lying behavior of people when it comes to the budgeting process. Enterprise value is destroyed by people lying in the formation process of budgets in order to reach the budget goals more easily and people also tend to lie when it comes to the realization of these budget goals.[75]

### 5.1.5 Stress and Time Pressure

Existing research suggests that pressure and stress have a strong impact on the ethics of a person's decision making. McShulskis (1997) published a study conducted among American workers, saying that 48% of them have already responded to job pressure by acting unethically or even illegally. 58% have considered unethical or illegal behavior.[76]

Another experiment by Darley / Batson (1973) observed people's ethical actions under pressure: therefore, they asked people to give a lecture in another part of the building. The participants received a map to find the way to go there and in addition to that, one third of them were told to be in a 'high hurry' state, whereas the other two thirds were classified as 'intermediate hurry' and 'low hurry' state. On their way to this lecture, each of the participants passed by an actor, groaning with pain and coughing. The result was that 63% of the people being in a 'low hurry' stopped and tried to help the needy man, but only 45% in the 'intermediate' state and just 10% in the 'high hurry' state did the same.[77]

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[73] Hoyk/Hersay (2008) p. 32

[74] Schweitzer, Ordonez, Douma (2004) p. 422

[75] Jensen (2003) p. 379

[76] McShulskis (1997) in Selart / Johansen (2011) p. 130

[77] Hoyk/Hersay (2008) p. 49-50

From both experiments it can be deduced that time pressure and stress obviously affect people’s awareness of acting and behaving ethically to an alarming extent. As today’s business world is hallmarked by time pressure and stress, it is not very surprising that there often is a public call for more ethics and moral in business.

### 5.1.6 Decision Schemata

Usually in modern business life, people are confronted with huge amounts of information they are supposed to deal with and organize themselves. As a result, either companies provide their employees with scripts or guidelines, so that the employees know exactly what to do when a specific situation occurs, or employees create schemata on their own in order to be able to handle the overload of information. The problem with schemata usually lies in their nature: they result from past experience and from that, people derive expectations about a topic for future decisions. Thus, if an unethical action somebody is confronted with does not meet the standards of his schemata responsible for recognizing unethical actions, the person simply will not identify the action as unethical, although when thinking about it carefully, they might come to a different result.

Decision schemata help people to simplify dealing with big amounts of information and consequently make people’s life easier every day, but on the other hand also make people oversee unethical actions more easily.

One famous example from the past happened at the Ford Motor Company in the 1970s. Although the company was already aware of the defective gas tanks of one of their cars produced, the recall coordinator did not recall the car because it did not meet his personal recallable standards for a car, resulting in the deaths and injuries of many customers.[78]

[78] Hoyk/Hersay (2008) p. 51-52

### 5.1.7 ‘Part of the Game‘

In many unethical actions, the persons involved afterwards argue that basically everyone behaves like that either in the firm or the business they are working in. And consequently, if they had not done what they did, somebody else might have certainly done the same.
This argumentation helps individuals to minimize their feelings of guilt in case they engage in unethical behavior. Psychologists call this phenomenon ‘False Consensus Effect‘.[79]

### 5.1.8 Social Forces

People generally feel less involved individually and also personally feel less at fault when acting as a group. Within a group, it is much easier to deny responsibility because a person does not feel directly involved or because other group members can be blamed for the misbehavior.[80]
Numerous studies have tried to explore at the reasons why some people that are usually referred to as honest behave very differently in certain business situations. It was observed that their own personal judgement for a given situation was often aborted for the one of a group or community, even if it included unethical and illegal actions and behaviors. In fact, several experiments have shown that ‘situational forces are often more powerful predictors of human behavior than dispositional traits like honesty.’[81] Individuals often do not raise any objections within a group to avoid conflict and being separated from the group. Consequently, in many group decisions some group members do not express their doubts or even act in contradiction to their own

[79] Hoyk/Hersay (2008) p. 71-72

[80] Hoyk/Hersay (2008) p. 23-26

[81] Perlman (2007) p. 458-459

beliefs.[82] When it comes to decisions that involve a high level of uncertainty, individuals often seek to hand over responsibility to the group as a whole rather than standing up for their own opinion and risking being blamed in case of a wrong decision. Accordingly, group members might accept decisions that they would not take and accept as individuals.[83]

## 5.2 Personal Factors

### 5.2.1 Personal Benefit

A well-known proverb says that ‘money cannot buy happiness’. Believing a survey conducted by Warner (2002) among CEOs, more than 70% ranked money as their top priority. Conversely, Diener (2000) found out via a survey that only 2% of our general happiness is reflected by money. The remaining 98% of happiness come from other factors such as social support and religion. Of course, once a person drops below the poverty line, money suddenly plays a much more important role in everyday life and consequently affects a person’s happiness much more. But even far above the poverty line, people seem to want more and more money and are hardly satisfied with their current salary. In the end, even if the salary is increased, people’s satisfaction with their money situation remains unchanged after a short period.

The reasons for that can be found in people adapting their living standards to the improved situation of a higher salary and in the end, there is not more money left than it was before with a lower income, forcing them to demand a higher salary for their satisfaction. Another reason described is the comparison of people with others. If there is a big difference in the income of two people that

[82] Harvey (1977) in Sims (1994) p. 53

[83] Sims (1994) p. 53-55

in their eyes is not justified, unethical behavior may be the consequence to reach higher levels of income.[84]

Johnson / Ryan / Tian (2008) found out, that ‘the likelihood of corporate fraud is positively related to incentives from unrestricted stockholdings. As in many firms unrestricted stockholdings represent a major part of the management’s compensation, this can be a big incentive for managers to misreport numbers to maximize their personal benefit and also to meet targets set by the company or its shareholders.[85]

In line with these findings are results from Gino / Pierce (2009) describing that ‘people’s decisions and behavior is (wirklich so im Original?) deeply affected by the presence of wealth’ leading to unethical behavior. Participants of their study cheated more often in a wealthy environment than others in an environment of scarcity, as a result of feelings of envy.[86]

### 5.2.2 Playing a Role

As discussed earlier, many people have a different set of personal standards depending on their environment, making them behave differently in their professional and private life as a result of the firm demanding other standards than they require in private life with their families. [87]

Zimbardo (1971) performed an experiment that made some subjects run a prison as guards and others finding themselves in the role of the prisoners. The subjects defined as guards were given uniforms and job descriptions, whereas the remaining people had to play the role of the prisoners. Although, first they had a good time playing their roles, but soon the line between reality and role play melted. The guards started acting cruelly and introduced degrading routines, whereas the prisoners started rebellions or became apathetic. After

[84] Hoyk/Hersay (2008) p. 33-35

[85] Johnson / Ryan / Tian (2009) p. 1-6

[86] Gino / Pierce (2009) p. 152

[87] Crommelin (2007), p. 42

just six days out of 14 planned, Mr. Zimbardo had to abandon the whole experiment due to the psychological stress observed with the subjects.[88]

One explanation for people being able to behave in accordance with their role involves justification. Justifications are frequently used by people engaging in unethical behavior to ‘sanction acts of evil’.[89]
Closely linked to that is the argument of fulfilling an obligation. Obligations are frequently used as justification for unethical behavior that harms others. They are typically commitments that have to be fulfilled.[90]

In modern business life, people are confronted with a broad range of tasks that are expected from them. This often makes it very easy for an individual to hand over responsibility to the firm or the boss. In addition to that, justifications are often used to explain oneself and the unethical behavior someone engaged in.
Because of that situation, of people easily finding themselves in roles and doing what the firm or their boss is expecting from them, the resistance to engaging in unethical actions is often fairly weak, making it a very central point in the discussion of ethical behavior in modern business life.

[88] Hoyk/Hersay (2008) p. 53-54

[89] Hoyk/Hersay (2008) p. 57-58

[90] Hoyk/Hersay (2008) p. 60

### 5.2.3 Diffused Responsibility

If people are not directly involved in an unethical action, they often deny responsibility for it. [91] Accordingly, they have no incentive to make the misbehavior public and even if they want to, some might not know to whom they shall address to in case it is, for instance, their own supervisor who engages in unethical behavior. Furthermore, people who are not very well educated in business ethics might ask themselves whether the behavior observed is really unethical and whether they can be absolutely sure that what they have seen was really unethical or just an ambiguous action. In doubt, they tend to remain silent so as to avoid blaming someone by mistake.[92]

### 5.2.4 Loyalty

In everyday business life there might be a lot of conflict potential related to loyalty issues. On the one hand, an employee should be loyal to his or her bosses, on the other hand, being loyal to one's coworkers and friends is of high importance too. If an employee tells another one about an issue that occurred at work, usually the employer will expect to be told about that problem as well. But the staff member of course expects the other one to be loyal and not to tell anyone.[93]

Obviously, being loyal to a person or company can result in unethical behavior, as it would be the case in the above example. From the company's point of view, it would be the employee's duty to tell his supervisor about the nuisance, but in case he decides not to do so in order to be loyal to his coworkers, he also engages in unethical behavior. Either way, it represents a conflict of loyalties.

[91] Hoyk/Hersay (2008) p. 23

[92] Bansal / Kandola (2003)

[93] Hoyk/Hersay (2008) p. 37-38

### 5.2.5 Power

Kipnis (1976) describes in his book 'The Powerholders' how possessing power can change people and result in unethical behavior. He observed that the more means of punishment or reward a person possesses, the likelier the person will make use of this power. The more the person does so, the more it usually projects the employees' success to his own leadership skills. Following this, the person starts devaluing his own employees, as the success of the business he is responsible for, in his opinion is resulting mainly from his ability to lead and tell his employees what exactly to do. This consequently leads to more emotional distance towards his employees and in the end can make the person pushing his employees harder and harder to perform strongly and continuously improve results, which at a certain point can become unrealistic and then forces them to think of alternative ways to meet the expectations, resulting in unethical actions.[94]

### 5.2.6 Erosion Over Time

Gino / Moore / Bazerman (2009) described the phenomenon that if people observe small changes in ethicality over time, they often cannot describe what the initial situation was like and consequently also cannot assess that a change happened and what exactly it was, making it difficult to recognize unethical behavior slipping in slowly over time.[95]
The same aspect was noticed by Hoyk / Hersay (2008) and they concluded that if people were asked to participate in unethical behavior little by little, most people would tolerate unethical behavior much more easily. [96]

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[94] Kipnis (1976) in Hoyk/Hersay (2008) p. 55-56

[95] Gino / Moore / Bazerman (2009) p. 29-32

[96] Hoyk/Hersay (2008) p. 21-22

### 5.2.7 Self-Deception

Tenbrunsel and Messick (2004) describe a phenomenon that the human mind in a way often tries to trick itself so that the person could live more easily with the consequences or actions taken earlier. Subsequently, if a person is confronted with an ethical decision, this often involves a tradeoff between moral principles and the person's self-interests. By fading out the ethical dimension of this decision, the person can easily make a decision that is fully driven by self-interest and at the same time think that nothing wrong has been done in terms of ethics. The person's mind avoids any bad feelings of regret or guilt by doing so and in the end kind of protects the person. Psychoanalysts are fully aware of the processes going on in one's mind when it comes to self-deception. But what is completely unclear so far is whether the process of fading out unwanted aspects of a decision-making process is done consciously or unconsciously. [97]

### 5.2.8 Low Risk of Consequences

When people in general have a low risk of their actions being brought to someone's attention who might initiate consequences for the misbehavior, their general position on what is ethical or not seems to change drastically. One reason explaining this phenomenon is the way we were brought up: usually, children get punished for undesired behavior and on the other hand get rewarded for the desired one. In the absence of this punishment or at low risk of being punished, even adult people seem to have a different stance on unethical behavior.[98]

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[97] Tenbrunsel/Messick (2004) pp. 225-226

[98] Hoyk/Hersay (2008) p. 72

### 5.2.9 Bystanders

If people observe others behaving unethically and ignore it, this can support the culprits in their view that they actually did not do anything wrong or that what he or she did was not really worth mentioning.[99] In fact, there is another problem that results from those bystanders not calling attention to the misbehavior: Bad behavior might be accepted by others and simply taken as the norm. Consequently, irresponsible behavior in a way creates even more irresponsible behavior if not pointed out to someone in a position of authority in the firm.[100]

Gino / Moore / Bazerman (2009) have discussed the circumstances under which individuals simply oversee the unethical behavior of others. One factor is that people have a tendency to overlook others' unethical behavior when they recognize that the unethical behavior could harm them. If a person has a beneficial relationship with another one, this person usually has a hard time to assess the other person's actions accurately. Secondly, people also overlook unethical actions if those actions are not obviously unethical at first sight. Thirdly, ethicality erodes slowly over time. If people observe small changes in ethicality over time, they often cannot describe what the initial situation was like and consequently also cannot assess that a change happened and what iexactly it was, making it difficult to recognize unethical behavior (den Satz hast du ziemlich wortwörtlich schon etwas weiter oben!). Finally, people generally do not evaluate unethical actions during the decision-making process, but they do once the action has resulted in a bad outcome.[101]

### 5.2.10 Anger

[99] Hoyk/Hersay (2008) p. 77-78

[100] Bansal / Kandola (2003) p. 4

[101] Gino / Moore / Bazerman (2009) p. 29-32

The problem with anger usually is that it is a ‘cover-up emotion‘. It is often used by people, knowingly or unknowingly, to protect themselves from showing others more vulnerable feelings such as being scared, helpless or ashamed. Being angry leads to people being unable to allow empathic feelings, making it impossible to feel guilty after behaving unethically and resulting in a person‘s inability to differentiate between unethical and ethical situations.
Anger makes people often look very strong and powerful, which is the reason why people use it to pass off unpleasant or awkward situations. But in doing so and protecting themselves, anger can result in unethical behavior.[102]

### 5.2.11 Empathy

Usually, empathy makes people sympathize with others and consequently also feel guilty for wrongdoing once they engaged in unethical actions. So, empathy generally prevents people from behaving unethically.

But empathy can also cause unethical behavior if it more than compensates a person‘s fairness.[103] The reason why we help others was intensively observed in over 30 different experiments and the result of all these experiments was that ‘empathic emotion produces altruistic motivation.‘ [104] Accordingly, people rather help others when they feel empathy for them, which is a phenomenon frequently observed when people get jobs or promotions because they are someone‘s friend within a firm. When translating this to normal life, if the empathic feeling is stronger than the feeling of need for fairness, a person might be tempted to act unethically in a situation by preferring a friend‘s proposal or just by doing this friend a favor, being aware of the ethical conflict this causes.

[102] Hoyk/Hersay (2008) p. 63-64

[103] Hoyk/Hersay (2008) p. 100-102

[104] Snyder/Lopez (2009) p. 424

In an extreme situation, a lack of empathy can result in feeling disrespect for some person or group. Disrespecting people in general and even one's own customers is an aspect that was especially described by people working in investment banking in the recent past. A very famous example was given by Greg Smith (2012) after he resigned as an executive director at the American investment bank Goldman Sachs: in a newspaper article in the New York Times he stated that workmates were talking about 'ripping their clients off' and referred to their own clients as 'muppets'.[105] This dehumanization of people on the one hand helps to lower the empathy towards them and consequently also makes it easier to harm them. On the other hand, it also helps, once a person behaved unethically towards another, to feel less guilty by rather seeing them as objects[106] or just stressing their bad attributes.

In fact, the more people dehumanize others, the easier it becomes for them to harm others and not to act in accordance with their ethical thoughts.

Hoyk and Hersay (2008) furthermore describe a phenomenon called 'Social Dominance Orientation': it is the wish that the group or organization a person belongs to is dominant over others and superior in what it is doing. People having a high social dominance orientation usually have a low empathy towards people from other groups and also have less tolerance for others. Examples of this are people that are strictly against social programs or rights of minorities. In the end, the higher the social dominance orientation of a person is, the likelier it is that the person will engage in unethical behavior towards persons not belonging to its own 'superior' group.[107]

In literature this is also closely linked to collectivism theory, where a person strongly identifies with a group of person or a company and therefore does

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[105] Smith (2012)

[106] Hoyk/Hersay (2008) p. 82-84

[107] Hoyk/Hersay (2008) p. 96-97

anything to support and help this group, even if this results in unethical actions and behavior.[108]

This may also hold true for the example given from investment banking, where employees do anything to positively contribute to the firm‘s success and reputation, to remain part of this company that in the public is often said to be the number one investment bank worldwide, even if they are asked to act unethically or if fulfilling the targets requires acting unethically.

[108] Snyder/Lopez (2009) p. 424

# 6 Consequences of unethical behavior

When reading everyday‘s newspaper, there are first of all many cases where firms behave unethically, among them the famous examples of British Petrol, where insufficient security measures at a mobile drilling platform lead to a lasting natural catastrophe in the Gulf of Mexico, or the Japanese electronics firm Olympus that betrayed many shareholders and also stakeholders by faking corporate figures and therewith engaging in accounting fraud. It is therefore necessary to face individuals and firms with the consequences of unethical behavior to prevent them from future misbehavior and often also from seriously harming society as such.

Therefore, in the following chapters the non-financial consequences for individuals but also the society are examined, followed by discussing direct consequences for the firm by comparing scandals in the leading five industrial countries.

## 6.1 Consequences for Individuals

As stated earlier in this paper, today‘s worldview in business life is a system where the company is in the center of a society and if it follows its own egoistic goals to maximize profitability and strengthen market power, it makes in the end the whole society better off.[109] This is why most research on the consequences of corporate scandals following unethical behavior concentrates on the consequences the companies face after the whole firm or individual employees engaged in unethical actions. Usually, only financial consequences related to the whole firm are used to argue why firms should develop a good framework to prevent employees from behaving unethically. As a matter of fact, human-centered consequences should be given a much greater weight in this discussion, as they massively affect the well-being of humans, groups and in

[109] Giacalone/ Thompson (2006) p. 266-270

the end the whole society.[110] Also, ethical misconduct can have different job-related consequences for individuals like job loss or criminal and civil charges once the wrongdoing has been made public.

To illustrate that problematic aspect of unethical behavior's consequences on people's well-being, Giacalone / Promislo (2009) have developed a theoretical model that links unethical behavior directly to decrements in both, psychological and physiological well-being:

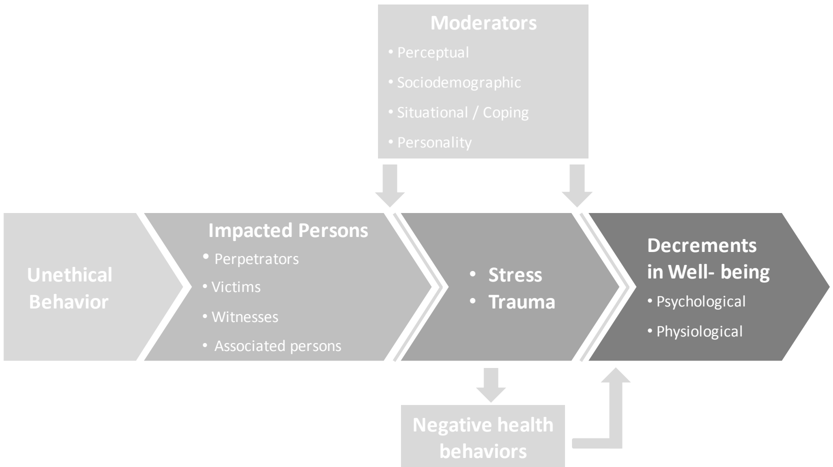


**Figure 1: A model of unethical behavior and well-being**
**Source: Giacalone / Promislo (2009) p. 2**

The model begins with unethical behavior as the source of decrements in well-being.

In the second step of the model, unethical behavior then affects individuals including the victim, but also others like the perpetrators, witnesses or associated persons. One might correctly ask why the perpetrator, who acts unethically, might be negatively affected by his own actions and if so, why he or she does not simply stop behaving unethically. Evans et al. (2007) argue that perpetrators not necessarily have to feel comfortable with their unethical actions. Indeed they can even act completely contrary to their own understanding of morals and ethics.[111] In business life, people are sometimes forced to do what is expected from them – they play a role that requires them to apply standards of the firm, supervisors or bosses and eventually do not meet their own ones at all. But some individuals overcome this dilemma by handing over responsibility to others because they were asked or even forced to behave unethically, which in

[110] Giacalone/Promislo (2009) p. 1-2

[111] Crommelin (2007), p. 42

a way justifies their wrongdoing.[112] Besides perpetrators and victims also witnesses and associated persons can seriously suffer from the unethical actions they have followed. Although they are not directly impacted, they can be shocked or scared that they will be victimized themselves next time.[113] Of course, also associated persons can suffer from those actions as a reaction to the empathy they feel either for the victims or the perpetrator.

In the third part of the model, the impacted persons are confronted with stress and traumata that affect their health behavior and also their general psychological and physiological well-being. It is important to stress that unethical actions do not necessarily cause any effects on a person's well-being. It is dependent from so-called Moderators that include perceptional, coping and socio-demographic factors that determine whether a person's well-being is negatively affected by unethical behavior. These factors include various characteristics of a person confronted with unethical actions, including age, gender, nationality, religion, family status and many others.[114]

Giacalone and Promislo (2008) showed in their paper that there is a strong relationship between unethical behavior and a person's well-being (klingt ein bisschen widersprüchlich angesichts des obigen "It is important to stress that ..", evtl irgnwie anders formulieren, etwas einschränkender). In literature, there is broad research on the consequences of unethical behavior on an individual's well-being, including psychological as well as physiological consequences.

### 6.1.1 Job-related Consequences for Perpetrators

#### 6.1.1.1 Resignation / Job Loss

[112] Hoyk/Hersay (2008) p. 57-60

[113] Moore et al. (2004) in Giacalone/Promislo (2009) p. 4

[114] Giacalone/Promislo (2009) p. 2-14

When analyzing the corporate scandals of the last few years and people being involved in unethical actions, it quickly becomes obvious that ethical misconduct in many cases directly translates into job loss or resignation of the person’s responsibility.

A famous example is the American telecommunications firm Adelphia Communications[115], whose management engaged in accounting fraud and conspiracy, which resulted in its resignation, but in addition to that, afterwards also led to criminal and civil charges against the managers.

#### 6.1.1.2 Criminal and Civil Charges

Although most corporate scandals resulting from unethical actions and business practices involve criminal and civil charges for both the company and the people involved in the scandal, unethical actions do not automatically result in courts convicting the persons involved. Even if the identity of the culprits and the exact nature of their contribution to the unethical actions is obvious, no court will punish them just for being unethical as long as they have not not offended against legislation and regulations. Nevertheless, in most scandals that are made public , violations of the law are often involed, resulting in criminal and civil charges.

A famous example of a person being confronted with civil and criminal charges was the case of Qwest Communications in 2002, whose manager Joe Nacchio committed insider trading as well as accounting fraud and was therefore sentenced to six years in prison and the payment of 19 million dollars as a fine.[116]

[115] http://online.wsj.com/news/articles/SB108862065449551734

[116] http://www.nytimes.com/aponline/2013/08/20/us/ap-us-nacchio-refund.html?_r=0

### 6.1.2 Physiological Consequences of Victims

#### 6.1.2.1 Higher Body Mass Index and Coronary Heart Diseases

Kivimäki et al. (2005) conducted a huge study (known as the Whitehall II Study) on people being treated unfair at their job and tried to link that to coronary heart diseases. Therefore, they asked more than 8000 participants from civil service departments in London. The result of the study showed that unfairness in the job increased the risk of a coronary heart disease of employees drastically, but in addition to that, people facing injustice at the job were less likely to be married and had lower body mass indices.[117]

#### 6.1.2.2 Sleep Problems and Insomnia

Thomas et al. (2006) observed the sleep behavior of Americans of different ethnics. They found out that people who felt discriminated against carried this over to their sleep and thus faced severe sleeping problems.[118] Greenberg (2006) showed that insomnia among the nurses in a hospital could be reduced very much by training managers in interpersonal treatment and therewith minimizing the nurses' perception of injustice or unfair treatment at work. [119]
Elovainio et al. (2003) conducted a longitudinal study on sleeping problems and health behaviors, such as smoking or alcohol consumption, caused by organizational injustice. The results suggested that low organizational justice at work resulted in a much higher probability of people having sleeping problems, but on the other hand they did not find any evidence that injustice at work fosters any of the health behaviors named.[120]

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[117] Kivimäki et al. (2005) pp. 2245-2251

[118] Thomas et al. (2006) pp. 635-642

[119] Greenberg (2006) in Giacalone/Promislo (2012) p. 60

[120] Elovainio et al. (2003) pp. 287-293

#### 6.1.2.3 Blood Pressure

Krieger and Sidney (1996) examined the relation between unfair treatment and discrimination at work for racial reasons and people suffering from high blood pressure. Therefore, they observed over 4000 black and white people. Over 80% of black people reported that they had experienced racial discrimination along with unfair treatment at work and those reporting strong discrimination showed a significantly higher blood pressure than their white counterparts of the same age and gender.[121]

Ryan et al. (2006) confirmed those results and stated that Black and Latino Americans and immigrants in New Hampshire were much likelier suffering from high blood pressure, but what is more, they also showed a negative linear relationship of discrimination and unfair treatment and general condition of physical health of the probands. [122] Those results were several times confirmed by other studies like from Din-Dzietham et al. (2004) and Matthews et al. (2005).

#### 6.1.2.4 Psychosomatic Complaints

Hallberg and Strandmark (2006) explored the consequences of workplace bullying in particular. Apart from many psychological symptoms that will be discussed in greater detail in the next part of the paper, they also examined physical and psychosomatic symptoms gradually emerging, usually followed by medical treatment and an increase in sick days. Those psychosomatic symptoms included headache, gastric catarrh, hypersensitivity to sounds but also respiratory and cardiac complaints, hypertension and pain all over the body. As is typical for psychosomatic complaints, those symptoms reported

[121] Krieger/Sidney (1996) pp. 1370-1378

[122] Ryan/Gee/Laflamme (2006) pp. 116-132

disappeared if the person was not at work, but if there was a long-lasting period where the person was exposed to this form of unethical actions, the symptoms could also become chronic.[123] Combined with these psychosomatic complaints, research from Einarsen et al. (1994) and Hoel and Cooper (2000) suggested that productivity and efficiency were very much negatively affected by any form of bullying and unethical behavior at work.[124]

### 6.1.3 Psychological Consequences of Victims

Research has shown that as early as in secondary school, when confronted with bullying or other forms of unethical actions, children are suffering from anxiety, depressions and low self-esteem.[125] [126] Broad research confirms that those problems associated with bullying can also be translated to adults in their professional life. Not surprisingly, bullied children or teenagers show significantly higher chances of developing depressions and psychosomatic symptoms as grownups.[127]

Hallberg and Strandmark (2006) conducted open interviews with employees being involved in bullying, either as victims or bystanders. Bullying here referred to various unethical aspects ranging from spreading rumors but also continuous insults that aimed to make the victim look bad. Victims described feelings of guilt, shame and also lower self-esteem, from which some victims suffered their whole life afterwards.[128] Other psychological consequences resulting from unethical behavior at work included stress symptoms, inability to concentrate,

[123] Hallberg/Strandmark (2006) pp. 114-115

[124] Einarsen et al. (2011) p. 135

[125] Salmon et al. (1998) p. 924-925

[126] Fekkes et al (2004) pp. 17-22

[127] Gladstone et al. (2006) pp. 201-208

[128] Hallberg/Strandmark (2006) pp. 109-119

memory problems, mood swings, fear, strong emotional reactions and even thoughts of suicide.[129]

Alcohol and other drugs count among the indirect consequences for people involved in unethical actions. Usually, alcohol is used to reduce feelings of guilt or other negative feelings because of the involvement in those actions. Research has shown that people who are asked to engage in unethical actions usually have alcohol afterwards, if they get the chance to, just to get rid of their negative feelings.[130]

## 6.2 Consequences for the Firm

Broad literature and papers on the consequences of unethical behavior in business life describe drastically declining reputation, lower productivity and motivation of employees[131], even a firm's breakdown[132] and huge industrial disaster causing the death of hundreds of people or massive pollution of the environment.[133]

In this part of the paper, broad literature analyzing different aspects of unethical behavior and action in business life will be discussed in terms of the consequences they have on the firms themselves, therewith showing the importance of a good and well-functioning ethics program in place in a firm in order to protect it against such severe problems and also the financial losses associated with it.

[129] Hallberg/Strandmark (2006) p. 110

[130] Hoyk/Hersay (2008) p. 65-66

[131] Cialdini et al. (2004) p. 68-72

[132] Bansal/Kandola (2003) p. 4

[133] Sivaprakash / Sakthivel (2011) pp. 38-43

### 6.2.1 Falling Share Prices

Rao (1997) looked at the effects on 16 publicly traded firms when they were accused of unethical behavior and business practices. Among others, those unethical actions included bribery, white collar crime and illegal payments. On average, the consequences of these actions resulted in a decline in stock prices by almost six percent the same day the scandal was made public. The study furthermore showed that the actual stock performance of the companies concerned was lower than the expected market adjusted returns.[134]

Furthermore, a study published by Wirthlin Worldwide in 2003 showed that 74% of the participants said that a firm's honesty and ethics directly affect their decision whether to buy a stock or not.

### 6.2.2 Investment Distortions

Kumar and Langberg (2009) showed that corporate fraud creates investment distortions for companies. The core problems associated with that were seen as the principal-agent-problem. A firm's management does not necessarily have the same interests than its shareholders and owners. Although the management is chosen by the firm's shareholders, they cannot be fully sure that the management acts in their interest, as they might follow their own targets like for example maximizing their own monetary compensation with the additional insider information they have, which can be costly to the shareholders. This situation may result in distrust and shareholders not supporting projects that would be beneficial for both sides because they are afraid that the management may be trying to exploit them.

Corporate fraud of course increases this anxiety of being exploited and results in shareholders refusing projects that provide very good investment opportunities and on the other hand also invest in projects that do not show good returns. In other words, 'corporate fraud is accompanied by

[134] Rao (1997) p. 60

overinvestment in low-return states and underinvestment in high-return states.'[135] In an earlier study, Long and Rao (1995) observed 54 companies that were involved in unethical actions over a period of four years and showed that those firms showed abnormally negative returns on their investments.[136]

In addition to that, Kumar and Langberg (2009) also showed that corporate fraud is more likely for companies with easy access to external financing. Firms having a hard time to find external financing for their projects have to be much more careful when it comes to corporate fraud to not lose those few investors that commit to the firm and its investments.

### 6.2.3 Absenteeism of Employees

Hulin (1991) states that employees 'use absenteeism as a mechanism to withdraw from aversive situations at work.'[137] This findings can be extrapolated to any form of unethical behavior at work. People observing others behaving unethically may feel uncomfortabe at work or when being with their workmates and therefore stay absent more often than they would normally, so as to avoid the situations they were finding themselves in earlier. This was observed by Hallberg and Strandmark (2006) when they conducted open interviews with people involved in bullying at work, including both direct victims of bullying and bystanders. The victims described feelings of guilt and shame as well as lower self-esteem.[138] According to Hulin, they would then try to elude those situations by staying absent from work.

On the other hand, people engaging in unethical behavior may also stay away from work more often because of the feeling of guilt or shame they feel after their wrongdoing in regards to their workmates or the whole firm.

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[135] Kumar/Langberg (2009) pp. 161-162

[136] Long/Rao (1995) pp. 65-73

[137] Hulin (1991) in Schabracq / Winnubst / Cooper (2003)p. 74

[138] Hallberg/Strandmark (2006) pp. 109-119

Unethical behavior consequently can be seen as a big problem for a firm as it may result in a high rate of absenteeism of its employees, who try to cope with the unethical actions going on at work by staying away from the firm.

### 6.2.4 Employee Dissatisfaction

As Heskett et al. (1994) showed in their Service Profit Chain, a firm's internal quality of its working environment contributes the most to employee satisfaction. What the authors describe as internal quality is simply a term denoting 'the feelings employees have toward their jobs, colleagues, and companies.'[139] Consequently, it describes the way people work together inside the firm, the way they are treated by their supervisors and bosses, the goal setting by the firm, their development, their compensation and finally the whole working climate. Obviously, unethical behavior or actions at work lower the perception of the internal quality of a firm and in the end negatively contribute to the growth and profitability of a firm.

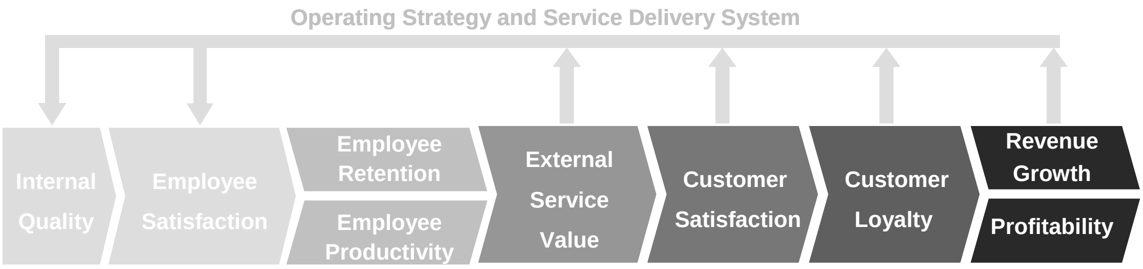


**Figure 2: The Links in the Service-Profit-Chain**
**Source: Heskett et al. (1994) p. 166**

The graphic above illustrates the processes going on in the Service-Profit-Chain described by Heskett et al. (1994): Internal Quality translates into employee satisfaction, which in turn affects the productivity and retention of these employees. In the next step, this has direct consequences on the external service value for the customers and therewith affects customer satisfaction and

[139] Heskett et al. (1994) p. 168

loyalty, which in the long run influences the revenue growth and profitability of the firm.[140]

Varca and James-Valutis (1993) observed that job satisfaction was especially important for high-skilled employees, as motivated, high-skilled people outperformed unmotivated ones by over 25% in productivity in their studies. This relationship was weaker for persons with low skills, as their tasks can often be achieved well without very high levels of motivation and satisfaction.[141]

### 6.2.5 Productivity and Profitability

A firm usually should have a quite strong motivation to 'show care and consideration towards its employees'[142] as motivated people are able to work much more efficiently, which then translates into higher loyalty and commitment to the firm but also into a higher productivity and quality of the goods and services provided.[143] This aspect can also be extrapolated to many aspects in business life related to the topic of business ethics. There are numerous studies emphasizing the importance of ethics and an ethical work climate when it comes to a firm's productivity:

Verschoor (1999) conducted a study among the 500 largest corporations in the United States from 1996, where he observed the relationship between their ethical principles established, the management's commitment to those principles as well as the firm's financial performance. From this study, he concluded that firms committed to ethical behavior showed a statistically significantly higher average financial performance than other firms that did not.[144]

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[140] Heskett et al. (1994) p. 166

[141] Cialdini/Petrova/Goldstein (2004) pp. 68-72

[142] Chryssides/Kaler (1993) p. 26

[143] Chryssides/Kaler (1993) pp. 25-26

[144] Verschoor (1999) pp. 1509-1516

### 6.2.6 Loss of most Capable Employees

A firm engaging in unethical actions and behaviors in business life may also be confronted with the problem of its most capable employees seeking for new jobs. As stated earlier in this paper, studies have shown that very qualified people who are motivated and satisfied with their jobs are more productive by over 25% than their less motivated, unsatisfied counterparts. Besides this negative productivity effect for a firm, the employees who usually contribute the most to a firm's earnings and success are also usually those that find a job easily somewhere else where they might find an environment that motivates them and consequently contributes to their professional success.[145]

O'Reilly, Chatman and Caldwell (1991) conducted a survey showing that people generally look for firms that share the same values and characteristics with them. Consequently, a person who ranks achievement above everything else is likely to look for an employer who demonstrates an aggressive, outcome-oriented culture. Likewise, this holds true for people searching for autonomy, who are more attracted by employers with innovative cultures.[146] Likewise, people ranking ethics very high in their priority may also try to find an employer who shares this idea with them rather than ignoring or actively participating in unethical behavior in business life. This finally may result in firms acting unethically, attracting more and more unethical people rather than others, which drastically increases the risk of huge corporate scandals.
Besides that, in many business sectors it is very hard to find an appropriate substitute for a qualified person leaving his or her position within the company and is usually also associated with high costs for the whole recruiting process, but also with additional ones related to training and development until the follower is able to perform the job as well as his or her predecessor.

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[145] Cialdini/Petrova/Goldstein (2004) pp. 68-72

[146] O'Reilly/Chatman/Caldwell (1991) pp. 499-502

### 6.2.7 Employee Theft

Greenberg (2002) conducted a survey with 270 customer service representatives who finished the hour-long questionnaire after a full work day without being paid for this extra time. During the time they spent on completing the questionnaire they were provided with the chance to steal money from a bowl of pennies next to them. Those employees working for firms that had a functioning ethics program did not allow themselves to steal, whereas the others without such a program in place stole from their employers. [147]

This study shows the importance of a working ethics program in place, but it also shows how dissatisfaction of employees can drive them to behave unethically, thereby causing financial losses to the firm and their employers.

The Association of Certified Fraud Examiners quantified the financial burden resulting from internal fraud of employees towards their employers to 400 billion dollars a year, just in the United States. Another source coming from a government legislative committee speaks of one third of all business losses resulting from employee theft, making it a severe problem for firms and causing heavy financial losses.[148]

[147] Greenberg (2002) pp. 985-1003

[148] Cialdini/Petrova/Goldstein (2004) pp. 68-72

### 6.2.8 Criminal and Civil Charges

Similar to persons and individuals being responsible for ethical misconduct, also firms themselves – being body corporates – are often confronted with criminal and civil charges once the wrongdoing has been made public. So it happened for instance that AOL Time Warner[149], an American media company, was fined over 500 million dollars after accounting fraud and insider trading had been unveiled in the company, besides its managers paying over eight million dollars themselves for their involvement in the illegal actions. But again, similar as for individuals, firms can only be sued if they have done something illegal. If they do something unethical that is not considered illegal, they do not have to fear any legal consequences resulting from criminal or civil charges.

As a matter of fact, scandals being made public can create enough public attention and unmask a lack of current legislation that in turn can result in stricter legal regulation in the future by forcing the government to act and prevent firms from mishaving similarly.

Today, existing laws and legal regulations vary a lot around the world. In some countries, certain ethical issues are addressed more strongly, whereas in other legislations those aspects are considered to be of minor importance. Once an unethical issue is addressed in law, this makes it illegal and usually people and firms will be punished in case of not complying with it. One example is discrimination in the United States. The United States have a long history of fighting discrimination legally. Victims of discrimination can file unter Title VII of the Civil Rights Act of 1964 that protects people from being discriminated against because of their race, religion, sex, color, age or national and cultural background. Another act protecting the rights of a certain group was the Pregnancy Discrimination Act of 1978. There are numerous other regulations in the United States protecting for instance disabled people and above-40-year-old people. Since any discrimination regulated in law becomes illegal, not complying with it can indeed be very costly in the United States. A famous

[149] http://money.cnn.com/2004/12/15/news/fortune500/time_warner/

example from the recent past represents the case of the investment bank UBS, which was ordered to pay damages of 29 million dollars to a former employee in response to unequal treatment at her job there. [150] Other unethical issues being addressed in the legislation of the United States include product safety aspects, organizational honesty and others, although a lot of unethical aspects are still not covered in law, which does not make them illegal.

Nevertheless, the public interest in the topic of business ethics and ethics in general has led to much stricter regulations on different aspects of ethical misconduct and therewith firms engaging in unethical actions are more and more confronted with criminal and civil charges once their misbehavior has been unveiled.

### 6.2.9 Loss of Reputation

'The businessman who straddles a fine line between what is right and what is expedient should remember that it takes years to build a good reputation, but one false move can destroy the reputation overnight.[151] This statement describes the problematic aspect a firm can be confronted with once any form of unethical behavior and actions of this firm has been made public. A loss in reputation usually also translates in a loss in sales and revenues, but also leads to problems when it comes to the firm's financing. The Wirthlin Worldwide study of 2003 showed that a firm's honesty directly affects customers' and also business partners' decisions whether to buy a product or service from that specific firm. Most people even stated that it also affects their decision to buy stocks from that firm.

People react very sensitively to any form of fraudulent behavior or dishonesty related to a firm. A case made public at only one small branch can directly affect a huge group and destroy its reputation. Once the good reputation is lost, it is a tough way back, regaining customer trust can take years or in some cases can

[150] Trevino / Nelson (2011) p. 118

[151] Steckmest (1982) in Cialdini/Petrova/Goldstein (2004) p. 68

never be achieved as customers might meanwhile have turned to some competitor they are satisfied with. Generally, people seem to react much more strongly to any form of fraudulent behavior than to any other attribute.[152]

A loss in reputation often directly translates in a loss in sales and customers, lowering the profits and also might affect a firm's financing in the future. Consequently, protecting the good reputation of a firm, often built over years and decades, should be a prime goal for a firm, which also means doing everything possible to reduce the risk of corporate dishonesty and fraudulent behavior and establishing an ethical framework that protects a firm's reputation.[153]

### 6.2.10 Bankruptcy

Although it is a very extreme and rare example of consequences resulting from unethical behavior in business, firms can indeed go bankrupt following unethical business practices being made public. It can be considered as the 'ultimate punishment' resulting from unethical business practices. The probably most famous example from the recent past is the case of the American energy commodities and service company Enron and its accounting firm Arthur Andersen[154] that used special purpose vehicle firms and other accounting tricks to hide billions of dollars of debt and therewith misrepresented its financial situation to the public, which resulted in one of the biggest corporate bankruptcy cases in the United States' history.

The case of Enron was especially interesting as misrepresentation of financial results was not considered to be a crime in the United States at that time, only if there was the clear intention and motivation to betray others, which in reality is very hard to prove. In fact, Enron and Arthur Andersen did not explicitely engage in a crime, but they interpreted accounting rules in the most aggressive

[152] Anderson (1968) in Cialdini/Petrova/Goldstein (2004) p. 68

[153] Cialdini/Petrova/Goldstein (2004) p. 68

[154] http://content.time.com/time/specials/packages/article/0,28804,2021097_2023262_2023247,00.html

way possible and therewith in the end ignored the fundamental fairness principle in the American accounting rules.[155] By doing so, they accepted that public shareholders and employee pension funds would lose their money, which is against any interests of society and therewith is considered as unethical.

The consequences of the Enron case were very severe. Besides Enron filing bankruptcy and the accounting firm Arthur Andersen being banned from its profession by a court of the United States (which was revoked a view years later), the government introduced new regulatory measures to prevent further scandals like that. The regulation of auditing for publicly traded firms was moved from states' responsibility to federal one.[156] Also, the famous Sarbanes-Oxley-Act was adopted in 2002 by the Congress. It asked publicy traded firms to establish a Public Companies Accounting Oversight Board that applies certain auditing standards that have to approved by the Security Exchange Commission and also oversees the work of the auditing firms engaged. [157] Furthermore, the law requires firms to establish internal controls to make sure that procedures and methods are in accordance with corporate policy and rules and in addition to that also requires them to introduce a code of ethics includes the following aspects, codified in section 406 of the act:

- Senior Financial Executives have to 'conduct themselves honestly and ethically, particularly in handling actual or apparent conflicts of interest.'
- They have to 'provide full, fair, accurate, timely and understandable disclosure in the periodic reports their employers file with the Security Exchange Commission.'
- They must 'comply with all applicable government laws, rules and regulations.'[158]

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[155] Cunningham/Harris (2006) p. 30

[156] Cunningham/Harris (2006) p. 30

[157] Cunningham/Harris (2006) p. 36

[158] Myers (2003) p. 1

Although the act intends to improve shareholder value, Zhang (2007) observed the economic consequences of the Sarbanes-Oxley-Act of 2002 and concluded that abnormal returns of publicly traded firms were significantly negative primarily due to the high costs associated with the introduction of internal controls and departments within the firm.[159]

That the Sarbanes-Oxley-Act could not fully prevent firms from engaging in unethical business practices was recently proved in the financial crisis with the case of the investment bank Lehman Brothers. The firm engaged in excessive risk taking, eventually speculating on the tax payers to bail them out in case of problems in financial markets, but finally resulting in its bankruptcy and shareholders and stakeholders losing billions of dollars causing the biggest financial crisis of many decades.

What becomes obvious from these examples from the recent past is that governments can never fully prevent firms from engaging in unethical behavior. Although legislation might make it more difficult to engage in questionable business practices, high competition and pressure to perform in today's business world will probably always find a loophole to circumvent existing rules and therewith outperform competitors, eventually causing other huge cases of bankruptcy.

### 6.2.11 High Costs of a System Change

In response to the problem of unethical behavior and actions at work, firms more and more rely an computer surveillance systems aiming at monitoring operations and employees. More than 70 000 firms in the United States spent over half a billion dollars for surveillance software in the years of 1990 to 1992 – which has certainly drastically increased in the past two decades.[160] Besides the high direct costs associated with the installation of monitoring tools, there are also numerous indirect costs related to increased surveillance:

[159] Zhang (2007) p. 42

[160] Cialdini/Petrova/Goldstein (2004) pp. 68-72

Hartman (1998) describes a link between increased monitoring and health problems of employees including anxiety, depression, anger, higher tension among many others like musculoskeletal problems.[161] A high level of monitoring may also result in higher stress and physical disorders that consequently lead to an increased absenteeism, lower creativity and lower productivity of a firm's employees. Finally, increased reliance on computer surveillance systems also makes firms more vulnerable to outside attacks from either hackers or viruses.[162]

Brehm (1966) describes the phenomenon of 'psychological reactance', according to which people being threatened by their environment, including a high level of monitoring, oppose this threat and regain their freedom by any methods available to them. Those methods may include hostile actions against the firm or just actions aiming at regaining control, but can also lead to employee theft that aims at harming the company.[163]

[161] Hartman (1998) in Martin/Freeman (2003) p. 354

[162] Martin/Freeman (2003) p. 354-356

[163] Brehm (1966) in Burke/Lake/Paine (2008) p. 384

# 7 Implementation of Business Ethics

The model presented for the implementation of business ethics in a company represents a collection of different aspects that shall be addressed in this process. It is based on a models presented by Stead/Worrell/Stead (1990) and McDonald/Nijhof (1999) that both stress the important role of individuals within a firm when it comes to business ethics and on the other hand also on models discussed earlier by Murphy (1988), Morris/Schindehutte/Walton/Allen (2002) and Trevino/Nelson (1999) that focus on structural components within a firm in order to establish business ethics within a firm. The model presented combines aspects from those existing models resulting in a holistic approach on implementing business ethics.

The first aspect of the model refers to individual aspects that represent the very basis for people’s ethics in decision making and consist of a person’s ability and also intention to behave ethically.

The second part concentrates on formal aspects that aim at establishing structures necessary to guide and control ethical behavior in a firm. It consists of the establishment of a corporate code, communication and distribution of

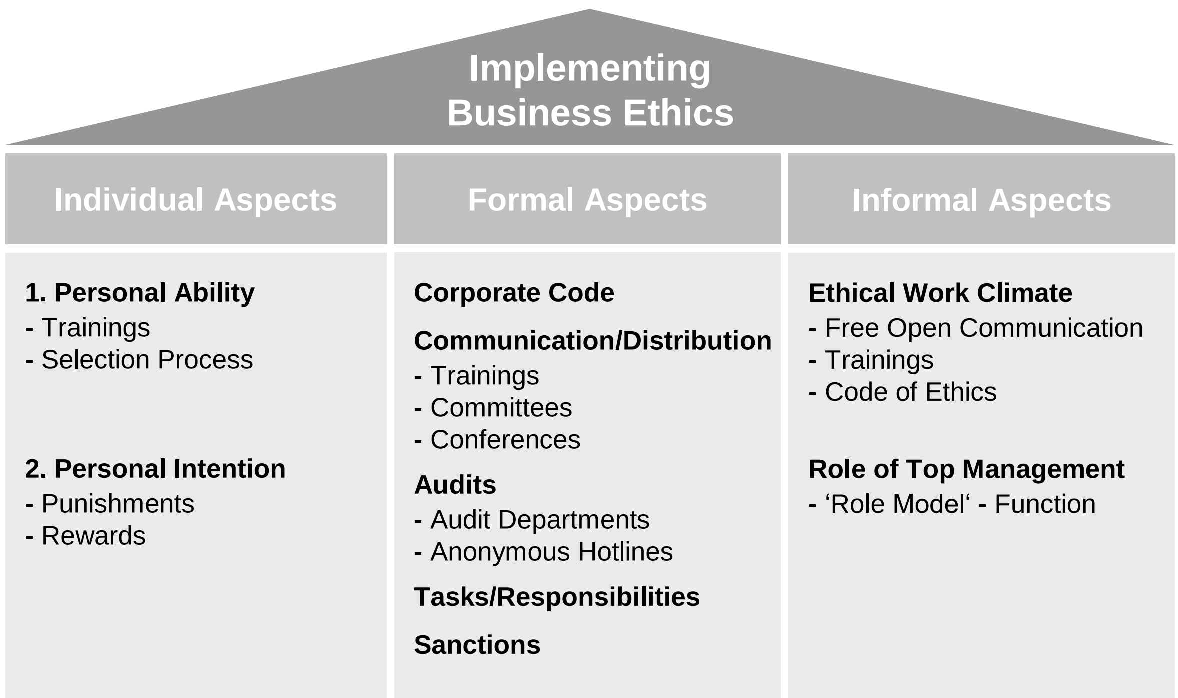


**Figure 3: Three-Pillar Framework**
**Compiled by the author**

ethics-related topics, guidelines and rules, the establishment of audits, clear distribution of tasks and responsibilities associated with the implementation process and finally sanctions for misconduct of employees that do not comply with the framework established.
In the third part a company is confronted with informal aspects that are represented by the establishment of an ethical work climate and the role of the top management on the other hand. Below, the different aspects will be discussed in greater detail and provide firms with tools that shall help them in the run of the implemention process.

## 7.1 Individual Aspects

The model starts with individual factors serving as the basis of ethical behavior in organizations. People's individual ethics is usually determined by one's personality on the one hand but also by one's socialization on the other hand, including the way one was brought up and many other factors of one's individual past experiences. Both socialization and personality contribute to one's ethical norms and also to the understanding of how and when to apply those norms. As a result, each individual possesses a personal ethical decision history that very much affects future decisions one makes.[164]

### 7.1.1 Personal Ability

McDonald and Nijhof (1999) distinguish between two different aspects when it comes to individual factors affecting business ethics: The first one refers to a person's ability to make independent and reflected decisions. Decision-making in today's business environment in many cases is difficult due to the complexity and broad variety of aspects affecting the decision. The firm can already try to assess an individual's personal ability to make qualified decisions in the

[164] Stead/Worrell/Stead (1990) p. 234-235

selection process for a certain position and in addition to that provide individuals with trainings that help them to deal with ethical dilemmas and make good decisions that are in line with the company's targets.[165]

Nevertheless, training does not necessarily make people act more morally or ethically, as this is reflected in their personality, which is difficult to change due to the complex nature of socialization on the one hand and past experiences of the person on the other hand.

### 7.1.2 Personal Intention

The second aspect affecting business ethics on an individual's factors is linked to the person's intentions. Employees consequently must have intentions to make ethical decisions. These personal intentions are usually affected by ego strength and personal moral values among many other factors.

A company is able to partly govern its employees' personal intentions using a penalty-and-reward-system. Penalties can include various forms ranging from oral reprimand to termination and suspension. On the other hand, rewards to foster ethical behavior can be mirrored in monetary rewards, but also others including verbal recognition.[166]

## 7.2 Formal Aspects

Formal aspects are related to the establishment of structures that allow the firm and its employees to codify their understanding of ethics, further discuss and – in case ethical issues come up – develop it and finally also supervise compliance with those standards established within the firm. Formal aspects include the development of a corporate code, establishing of an effective way of

[165] McDonald/Nijhof (1999) p. 133-146

[166] McDonald/Nijhof (1999) p. 133-146

communicating and distributing it and finally also the creation of an audit department supervising conduct of the corporate code.

### 7.2.1 Corporate Code

Generally, corporate codes aim at codifiying values, rules and policies of a firm towards ethical issues, therewith providing the basis for establishing an ethical work climate and helping a firm's employees with ethical dilemmas they experience at work. There is a huge amount of guidebooks aiming at helping firms to establish their own personal code of ethics, which is necessary due to every business field being very different and also each firm differentiating itself from its competitors in terms of its ethical understanding. According to research, a code of ethics should at least include the following six core values: trustworthiness, respect, responsibility, fairness, caring and citizenship.[167]

It is important that a code of ethics provides clear guidance to a firm's employees, so that everyone is aware of what to do and how to behave when being confronted with an ethical dilemma. It is also supposed to help employees when they face violations of the code, either by their workmates or by their bosses and supervisors, so that they know what to do and to whom they can turn to in case of someone's misconduct.[168]

Usually, a corporate code of ethics is created by a firm's management, but also involves almost any department of the firm, so that everyone is able to contribute their thoughts on potential areas of risks or legal problems that might arise when implementing the code of ethics.[169] As the understanding of ethics evolves over time, so does the code of ethics. To address current ethical issues, the code is to be periodically revised and finally also be published to

[167] Ferrell/Fraedrich/Ferrell (2010) pp. 214-215

[168] Murphy (1988) pp. 908-909

[169]Ferrell/Fraedrich/Ferrell (2010) p. 214

outside stakeholders to show the firm's commitment fo fair and ethical business practices.[170]

### 7.2.2 Communication and Distribution

Although a corporate code of ethics is a very important step in the implementation of business ethics, it risks being ineffective without communication and distribution among a firm's employees. Therefore, committees, trainings and conferences[171] should be established to foster communication and distribution within the firm and increase the employees' awareness of the topic of business ethics on the one hand but also help to address current topics related to business ethics and further develop and improve the existing code.

In addition to that, compliance manuals can function as a means of communicating and stressing certain rules and policies established and making them understandable for everyone within the firm.[172]

Besides, employees acting as role models by behaving ethically in difficult situations and therewith promoting the values of the firm, should be recognized throughout the firm. [173] This may help other employees to fully understand and remember desirable forms of behavior when they are confronted with ethical dilemmas themselves.

### 7.2.3 Audits

Auditing departments monitor conduct of the code of ethics of a firm, but also ensure that everyday operations including manufacturing practices, personnel

[170] Murphy (1988) p. 909

[171] Murphy (1988) p. 909

[172] Trevino and Nelson (1999) in Morris/Schindehutte/Walton/Allen (2002) p. 341

[173] Morris/Schindehutte/Walton/Allen (2002) p. 341

policies and sales techniques[174] are in line with the firm's values and ethical culture. It is the auditing department's duty to identify any form of ethical misconduct and react accordingly to decrease the risk of future misconduct.
Another structural adjustment that can help to unveil unethical behavior within a firm is the establishment of an anonymous hotline, which should make it easier for employees to report ethical misconduct that they observed.[175]

### 7.2.4 Tasks and Responsibilities

Murphy (1988) stresses the importance of a clear distribution of tasks and responsibilities related to the implementation of ethical behavior within a firm. He sees the most important responsibilities in the fields of leadership, delegation, communication and also motivation. Leadership is especially important in light of the management acting as a role model for the firm's employees. With their work, management should motivate its employees to engage in the ethical policies established. It should also clearly delegate the responsibilities necessary for the implementation to its middle and lower management team and communicate the policies to its employees using seminars, trainings and the code. Finally, motivating people to implement these ethical policies is very important and should be measured in a person's performance assessment. Therefore, tools to evaluate performance must be adapted accordingly to include those aspects.[176]
The tasks in the implementation process are usually very broad as every unit and department within the firm usually requires different tasks to be implemented. It is important for the firm to specify each of those aspects, where ethical questions arise ranging from the marketing and advertising departments to the human resource and sales departments. For salespersons it is important to know what is expected from them in terms of sale tactics whereas the

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[174] Murphy (1988) p. 909

[175] Morris/Schindehutte/Walton/Allen (2002) p. 341

[176] Murphy (1988) p. 910-911

members of the marketing team require exact information on the way they are expected to promote their product and what to tell the customers. Also the human resource department usually requires guidance in the processes of hiring and promotion to fully meet the ethical policies established.[177]

### 7.2.5 Sanctions

Closely linked to the procedures aiming at unveiling unethical behavior and supervising employees whether they are adhering to the rules and guidelines is the aspect of implementing sanctions for violations. They represent a necessary and powerful tool to enforce ethical conduct.[178] Sanctions can range from oral reprimand to dismissal and even a claim for damages resulting from the unethical actions.

## 7.3 Informal Aspects

Informal aspects reflect a firm's attitude towards its corporate culture that should foster ethical behavior and actions in everyday business life. Therefore, the establishment of an ethical work climate and the top management support represent another very important aspect in the implementation process of business ethics.

### 7.3.1 Ethical Work Climate

A work climate being considered as ethical has to make sure that information within the firm is able to be communicated freely and in particular that any ethical issue can be discussed openly. Ethical work climates are primarily

[177] Murphy (1988) p. 911-912
[178] Murphy (1998) in Morris/Schindehutte/Walton/Allen (2002) p. 341

influenced by the firm’s code of ethics on the one hand, but also the intensity of ethics training used to educate employees and make them aware of problematic aspects related to the topic of business ethics. Using those two tools, managers can actively improve their firm’s ethical work climate and therewith foster free communication within the firm. Furthermore, ethical work climates are also connected to job satisfaction of employees and ultimately to their productivity, resulting from their job satisfaction.[179]

### 7.3.2 Role of Top Management

A firm’s top management is responsible for both the organization and also the implementation of the measures aiming at improving a firm’s business ethics. In addition to that, the top management acts as kind of a role model for its employees.[180] If the management does not comply with the rules and guidelines for ethics it has helped to implement, those regulations will certainly not be taken seriously by other employees. A similar thing was observed in the case of the earlier discussed energy firm Enron: once the management had got involved in unethical actions, the problem quickly became an organizational one and finally led to a spectacular breakdown of the whole company.

Managers are responsible for communicating the organizational values to the other staff members. Therefore their full commitment to their own business ethics is required in order to motivate employees to emulate the behavior of the management and finally make it part of the firm’s corporate culture.

[179] Harvey (2007) p. 29

[180] Murphy (1988) p. 910

# 8 Conclusion

Broad literature and research have already discussed single or a set of aspects related to the interpersonal processes and consequences of ethical misconduct. This paper for the first time provides a holistic compilation of aspects explaining the reasons and consequences of unethical behavior and actions and analyzes existing frameworks of the leading five industrial countries.

Concerning this matter, it is important to stress that acting unethically does not necessarily results in a violation of the law, as laws usually only represent a minimum standard of behavior. Unethical behavior can have many different forms and has to be widespread enough to require legal attention and force governments to react and adapt existing legislation. In the end, firms and individuals will always find loopholes in legislations to achieve better results at the risk of acting unethical.

Following numerous corporate scandals of the past decades, the topic of business ethics has attracted a lot of public attention, thereby forcing more and more firms to react to ethical misconduct and establish ethical frameworks. Also when reflecting all the severe consequences of unethical behavior in business life, it should be absolutely paramount for a firm to establish and implement a framework that makes ethical misconduct much more difficult so as to lower the risk of being confronted with the costly consequences.

Existing models have so far only concentrated on few aspects when implementing business ethics. This paper combines existing research and proposes a new three-pillar-framework that identifies key factors that have to be met in order to establish a business ethics framework in a firm. The first pillar of the model is linked to individual factors of a firm’s employees, whereas the second and third pillar concentrate on structural components within the firm including both formal and informal aspects.

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# Appendix

# *Curriculum Vitae*

## Bernhard Aglas

### Studies

| | |
|---|---|
| 09/2010 – 12/2013 (exp.) | **University of Vienna**<br>*Master in International Business Administration*<br>Specialization: Corporate Finance |
| 01/2012 – 06/2012 | **Euromed Marseille Management**<br>Erasmus Exchange for one semester<br>Specialization: Money & Banking, Corporate Strategy |
| 10/ 2006 – 06/2009 | **University of Applied Sciences BFI Wien**<br>*Bachelor in Banking and Finance*<br>Specialization: Business Studies and Corporate Finance |
| 05/2005 – 10/2006 | **Karl-Franzens-Universität Graz**<br>Study of Law |

### Education and community service

| | |
|---|---|
| 10/2004 – 09/ 2005 | **Community Service** in BFI-BBRZ Linz<br>Care of handicapped people, social work |
| 1996 – 2004 | **Grammar School Schlierbach**<br>School leaving examination: 06/2004 |
| 1992 – 1996 | **Elementary School St. Marien** |

### Work experience

| | |
|---|---|
| 06/2012 – present | **Rewe International, Wiener Neudorf**<br>Management Trainee Program |
| 07/2012 – 09/2012 | **Pricewaterhouse Coopers, Vienna**<br>Internship ‘Transaction Services – Deal Services’ |
| 10/2011 – 01/2012 | **Prommer – Business Consulting / M&A, Vienna**<br>Part-time employment in “Mergers and Acquisitions” |

| | |
|---|---|
| 09/2010 – 02/2012 | **Raiffeisen Bank International, Vienna**<br>Part-time employment "Quantitative Research and Emerging Markets" |
| 06/2010 – 09/2010 | **Deutsche Bank, Vienna**<br>Internship "Mergers and Acquisitions" and "Equity Sales" |
| 10/2009 – 03/2010 | **RZB Finance LLC, New York**<br>Internship "Commodity Finance" |
| 06/2009 – 08/2009 | **Dresdner Kleinwort, Frankfurt**<br>Internship "Strategic Advisory – Mergers and Acquisitions" |
| 02/2009 – 06/2009 | **Commerzbank AG, Frankfurt**<br>Internship "Corporate Finance – Asset Finance Solutions" |
| 06/2008 – 07/2008 | **Volksbank AG, Vienna**<br>Internship "Fixed Income and Derivative Products" |

## Non-University Engagement

| | |
|---|---|
| **Further education** | Workshop for Implementing Derivative Models with Excel/VBA<br>Seminar "Rhetoric" with Wolfgang Stanek, personal trainer<br>Personality development seminar with Mag. Gudrun Stastny<br>Workshop for Excel-Applications in Banking |
| **Others** | Assistance in organization in athletics club |

## Languages and IT-skills

| | |
|---|---|
| **Languages** | **German** – mother tongue<br>**English** – fluent<br>**French** – good knowledge<br>**Chinese, Indonesian** – basic knowledge<br>**Latin –** profound knowledge |
| **IT-Skills** | Microsoft Office (advanced proficiency)<br>Excel (advanced proficiency)<br>VBA (advanced proficiency)<br>Word, PowerPoint, Outlook, Lotus Notes (advanced proficiency)<br>Bloomberg, DataStream (advanced proficiency) |

## Interests

| | |
|---|---|
| **Sport** | Athletics, swimming, fitness, squash, snowboarding |
| **Journeys** | Indonesia: 6 months, Singapore: 2 months, Canada: 4 months, US: 6 months, France: 6 months |
| **Hobbies** | Sports, reading, cinema, friends, go-kart |