

White paper

Facing moral dilemmas

How to improve ethical decision making in the workplace?

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Leadership is moral. It's about making choices when consequences are not yet clear. The call for leadership in many of today's organizations is a call for ethicality: showing the good way in uncertain times and maintaining or restoring trust with employees, customers and other stakeholders.

In this paper, we provide a clearer empirical and theoretical picture of what we know (and don't know) about ethical decision making when facing moral dilemmas in the workplace. The three questions we address are:

- 1) *What is ethical decision making in the workplace?*
- 2) *What are the sources of unethical decisions?*
- 3) *How can organizations get better in facing moral dilemmas?*

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1. What's the point of ethics at the workplace?

The Association of Certified Fraud Examiners estimated that businesses globally suffer annual losses of \$2,9 trillion as a result of fraudulent activity (2010). This is a huge sum, indicating that unethical behavior is far more widespread than suggested by the intense focus on the few high-profile scandals that are covered by major news outlets (Moore, C. et al., 2012).

Business ethics on the other hand, is beneficial for organizations as it has a positive impact on 6 different determinants of competitiveness: cost structure, human resources, customers, innovation capacity, risk en reputation management and financial performance. (Stouten, Van Dijke & De Cremer 2012 Eds.)

Notorious scandals like the Ford Pinto or the collapse of Enron and Worldcom, but also a scandal like the hacking and bribing at News of The World document the importance of moral decisions for managers, employees, customers, and shareholders (Ashforth, Gioia, Robinson, & Trevino, 2008). But also bad habits die hard. As we write this paper, BNP Paribas faces a 10\$ billion claim for illegal transactions and the Belgian Branch director of UBS is alleged for tax evasion.

For over 30 years, researchers have attempted to determine why individuals behave unethically in the workplace. Once viewed as the province of philosophers, as ethical scandals have garnered attention across multiple sectors of society (e.g., business, government, sports, religion, education), research examining the determinants of individual-level unethical choices at work has grown dramatically.

Yet, despite this increased attention, much remains to be understood about how and under what circumstances individuals make unethical choices. (Kish-Gephart, J. J. et al., 2010).

Notorious wake-up calls

- *Ford Pinto ('70 – 80): Ford was aware of the design flaw of the fuel tank, resulting in deadly fires and explosions. They refused to pay the minimal expense of a redesign: it would be cheaper to pay off possible lawsuits for resulting deaths. This discovery of Ford's apparent disregard for human lives in favor of profits led to major lawsuits, inconclusive criminal charges, and a costly recall of all affected Pintos.*

- *News of the world (2011): this newspaper was accused of hacking phones of politicians as well as bribing police officers. These developments finally led the newspaper to cease operations. At the paper's collapse, Colin Myler, former editor of this paper, clearly acknowledged that the paper's actions constituted a breach of ethics. (Stouten, Van Dijk & De Cremer, 2012)*

- *Enron (2001): "The ultimate cause of Enron Corporation's brutal collapse was a culture of greed and arrogance that bred excessive secrecy," competitors and lawyers interviewed by Kurt Eichenwald of the New York Times said. They reported investment partnerships as revenue and disregarded their losses. Due to the alleged white-collar crime of one of the world's largest energy traders, US Congress was forced to reevaluate the business ethics of the entire nation.*

- *Worldcom (2002): This U.S.-based telecom company was at one time the second-largest long distance phone company in the U.S. Today, it is perhaps best known for a massive accounting scandal that led to the company filing for bankruptcy protection in 2002. WorldCom executives effectively fudged the company's accounting numbers, inflating the company's assets by around \$12 billion dollars. The swift bankruptcy that followed led to massive losses for investors.*

2. The art of ethical decision making

As Gunia et al., (2012) we use the term “**moral**” categorically, to describe a particular type of decision, i.e., one concerning values. For example builders who need to choose between durable and cheap materials or accountants who must decide when creative becomes deceptive. We use the term “**ethical**” evaluatively, as opposed to “unethical”, to describe decisions that are normatively appropriate, as opposed to decisions that are normatively inappropriate. For example the ethical decision for a salesman would be to reveal available discounts. The unethical decision to conceal them.

A person has to go through the process of making an ethical decision when his or her freely performed actions may harm or benefit others. When they choose to take a decision that is both legal and morally acceptable to the larger community, they take “the ethical decision” (Jones, 1991). A decision that causes harm to another individual or that violates widely accepted norms in society is considered to be “the unethical decision”. (Moore et al., 2012). Stated like this, choosing to take the ethical or the unethical decision, seems a very straight-forward and conscious thing to do. Research shows however, that there are influences on the unconscious level that make our ethical decisions less lucid than we might wish.

Rest (1986) proposed a ‘4 component model’ for individual ethical decision making and behavior (see Figure 1). First, a moral agent must recognize the moral issue, then make a moral judgment, decide to place moral concerns ahead of other concerns (establish moral intent), and act on the moral concerns. Consider a salesperson who has to do “something special” to win a bid. He has to understand that bribing is potentially unethical, before he can start thinking about it or asking advice (Component 2).

When he formulates an answer to himself, he establishes his moral intent and finally acts upon it.

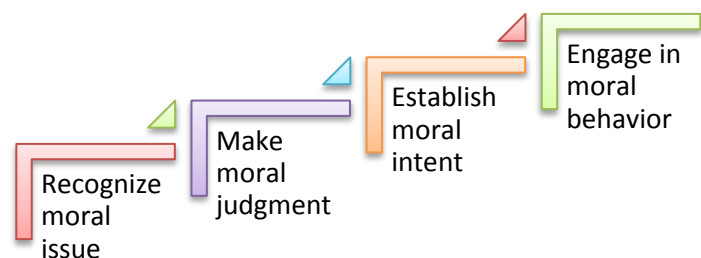


Figure 1: the ethical decision making process (Rest, 1986)

This is a very rational approach, as if people are not hindered by more unconscious or affective responses to situations. Cognitive and social psychology have proved otherwise. Bandura described 8 interrelated cognitive mechanisms - collectively labeled as moral disengagement - that deactivate the moral self-regulatory processes that normally inhibit unethical behavior (Bandura, 1999, see Fig. 2).

The first 3 mechanisms serve to cognitively restructure unethical acts so that they appear less harmful. Moral justification cognitively reframes unethical acts as being in the service of a greater good. Illustrations include the justification of military atrocities as serving a worthy goal. Euphemistic labeling is the use of sanitized language to rename harmful actions to make them appear more benign. For example, in corrupt organizations, those who collude are often positively labeled “team players”. Palliative or advantageous comparison exploits the contrast between a behavior under consideration and an even more reprehensible behavior to make the former seem innocuous. For example, misrepresenting small lies on expense reports can be viewed as more acceptable when compared with more egregious expense report violations.

The following 2 mechanisms obscure the moral agency of the (potential) actor. Displacement of responsibility refers to the attribution of responsibility for one’s actions to authority figures who may have tacitly condoned or explicitly directed behavior. Diffusion of responsibility works in a similar way but refers to dispersing responsibility for one’s action across members of a group.

Finally, 3 mechanisms serve to reduce or eliminate the distress one perceives to be causing a victim. Distortion of consequences describes the minimization of the seriousness of the effects of one’s actions. This is illustrated by descriptions of stealing from a large, profitable organization as a “victimless crime”. Dehumanization is the framing of the victims of one’s actions as undeserving of basic human consideration. This is fostered by defining others as members of an outgroup who are unworthy of moral regard. Finally, in attribution of blame, responsibility is assigned to the victims themselves, who are described as deserving whatever befalls them (e.g. “if they are stupid enough to buy this fat-burning belt, they deserve no better”.)

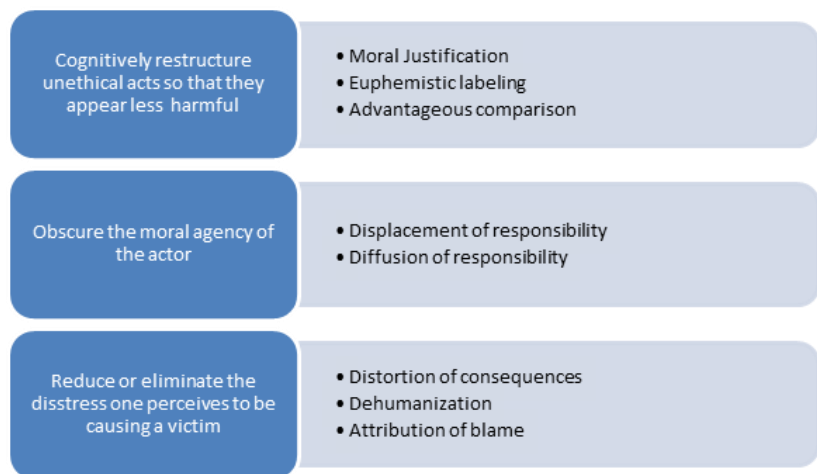


Figure 2: mechanisms of moral disengagement (Bandura, 1999)

Cognitive psychology points to even other mechanisms that cause people to have a rosy moral self-image (Haidt, 2007). The temporal dimension of ethical decision making allows already for the perpetuity of this (false) belief. People’s self-predictions generally reflect their hopes and desires rather than realistic self-understanding. So while we might have good intentions before we act, during

the action phase, ethical fading can occur, making the moral components of a situation less apparent and allowing us to act unethically (Tenbrunsel & Messick 2004). The sources of this ethical fading can be contextual factors (e.g. driving too fast because there are no cameras on this road, not because the risk of hurting someone is absent), repeated exposure to unethical behavior (ethical numbing) or even visceral factors (hunger, sleep). Afterwards, in the recollection phase, a process called psychological cleansing happens – allowing us to reduce cognitive dissonance between our act and our positive self-image and think positively about ourselves... and thus creating the way to continue our unethical behavior (Tenbrunsel et al. 2010).

Banaji, Bazerman, & Chugh (2003) identified four non-conscious and automatic influences on moral behavior : unconscious stereotyping (e.g. If you're surprised that a female colleague has poor people skills), in-group bias-favoring people (e.g. Companies that give bonuses to employees who recommend their friends for open positions), overclaiming credit (e.g. If you think you're better than the average worker in your company) and conflicts of interest (e.g. when an attorney has to decide whether he goes for a settlement on a winnable case –with quick and certain payment – or go to trial and take the risk.)

While in this point of view, these automatic processes hinder ethical decision making, other researchers state that moral judgments and interpretations are the consequence of automatic and intuitive affective reactions. In this view, that integrates recent neurological evidence, **moral intuition comes first** (Haidt, 2001). Moral intuition is defined as the sudden appearance in consciousness of a moral judgment, including an affective valence (e.g. good- bad), without any conscious awareness of having gone through steps of searching, weighing evidence or inferring a conclusion.

Dual-process models suggest that moral judgments are driven by both an intuitive process and a consciously-guided cognitive process that work to mediate ethical decision making. The discussion remains open. Some scholars suggest that cognition can help people be ethical in their judgments and actions, where others believe intuitive processes lead to superior ethical judgments. (Paharia et al., 2013). Recent evidence suggests that cognition might play a dual role: both as an enabler of ethical reasoning, and of self-interested motivated reasoning (Paharia et al., 2013). An experiment of Valdesole et al. (2008) for example, showed that without cognitive load, participants saw their unfair behavior as more fair, opposed to under cognitive load (e.g. performing a memory exercise) , when participants saw their unfair behavior as less fair. This supports the idea that cognition can also be used to rationalize and justify personal transgressions (Bandura, 1999) whereas the nature of intuition is ethical (Paharia et al., 2013).

3. Where does it go wrong?

Although the idea of “a few bad apples” is too easy to explain the latitude of the recent scandals, there is evidence that individual differences have effect on ethical decision making. **People can differ in level of cognitive moral development.** Kohlberg (1969) explained his theory of Cognitive Moral Development (CMD) how individuals advance from childhood to adulthood in their reasoning process, particularly focusing on the justifications they provide for their thinking in ethical dilemma situations.

At the highest level of CMD (“principled,” or Stage 5), individuals cognitively process ethical dilemmas by using sophisticated

reasoning. In making ethical judgments, they rely upon ethical principles of justice and rights and consider societal good. However, most adults operate at the

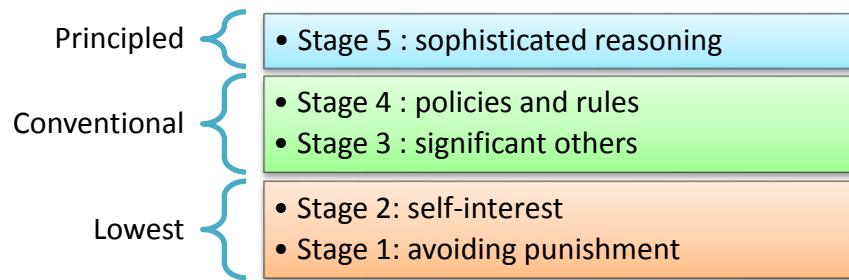


Figure 3: Cognitive Moral Development levels (Kohlberg, 1969)

“conventional” level of CMD, meaning

that their judgments about what is right

are influenced by policies and rules including the law (Stage 4) or by the expectations of peers and significant others (Stage 3). When thinking about what is right and wrong, individuals with the lowest levels of CMD invoke considerations such as acting in their own self-interest (Stage 2) or obedience and avoiding punishment (Stage 1). Although CMD is considered to be generally stable in adults, one’s CMD can continue to advance in adulthood with training interventions and other opportunities to practice moral reasoning. CMD is thought to guide behavior for cognitive consistency reasons. For someone who is capable of reasoning in sophisticated ways about an ethical issue, acting in a way that reflects lower level thinking is uncomfortable because of the cognitive tension that is created.

Other individual differences determine ethical decision making (Kish-Gephart et al., 2010). Not surprisingly, people who easily manipulate others for personal gain (*Machiavellianism*) and those who don’t see the connection between their actions and outcomes (*locus of control*), or believe that ethical choices are driven by circumstance (*relativism*), are more likely to engage in unethical choices.

Finally, since individuals rarely operate isolated in the workplace, the false consensus effect can amplify these individual differences (Flynn et al., 2010). People generally overestimate the commonness of their habits and values with those of the general population. Those who have large networks, suffer even worse from this bias. They tend to expand the similarity of views that peers may

have on superficial things, to the conviction that those peers also share their non-explicit, tacitly held moral opinions.

The characteristics of the moral dilemma also affects unethical choices. More specifically, the moral intensity (Jones, 1991) of the issue reduces the incidence of unethical choices. When you – for instance - expect the harm following your decision to skip a safety guideline to be large, chances you will take that decision are smaller. Next to “expected harm”, social consensus and proximity are 2 other characteristics that build the overarching construct “moral intensity.”

On the organizational level, a focus on concern for others (*benevolent climate*) or emphasis on rule abiding behavior (*principled climate*) discourages unethical behavior, whereas egoistic climates encourage unethical behavior. Remarkably, Kouchaki found in a recent study (2013) that the mere exposure to money encourages unethical behavior. His hypothesis to explain his findings is that the presence of money can elicit a business decision frame which prompts the objectification of others in a cost–benefit analysis in which self-interest is pursued over others’ interests.

Also, a culture that clearly communicates the range of acceptable behavior (by role-modeling, rewards, systems, a code of conduct, informal norms) leads to fewer unethical decisions. The mere existence of a code of conduct has no effect on ethical decision making, when enforced however, the influence is powerful. Goal setting, although often used by organizations to translate and communicate the desired direction, can encourage unethical behavior. Especially when goals are imposed, nearly-met or performance-based, people are more likely to cheat (Schweitzer et al., 2004; Van Yperen et al., 2011). The risk decreases when goals are self-generated, far from reached, or based on a desire for mastery.

4. What can be done?

On the individual level, an organization can use or develop **selection** tests based on the individual differences that effect ethical decision making: level of cognitive moral development, Machiavellism, locus of control and relativism). Kalshoven et al. (2010) studied the influence of the 'Big 5' factors of personality and found conscientiousness and agreeableness to be most relevant. Finally, Moore et al. (2012) developed a scale to measure the 'propensity to morally disengage' (see chapter 7).

The effect of hiring an employee with high ethical decision making skills, spreads through the process of role modeling. People learn much of what they know by observing the behavior of others and look outside themselves to others for ethical guidance, therefore the actions and attitudes of colleagues are an important source of information. Top executives set the ethical tone, but are far away and their influence is filtered. People closest to the employee seem to have the biggest influence (Weaver, Trevino & Agle, 2005). Ethical leaders are likely sources of guidance because their attractiveness (power and status) and credibility as role models draw attention to their modeled behavior (Brown et al., 2005).

Besides functioning as a role-model, **ethical leaders** can contribute to the creation and maintenance of an ethical and trustworthy organizational climate by the extent to which they use fair procedures when making decisions. Individuals form judgments about this 'procedural justice' by gauging whether those formal and informal organizational procedures are accurate, consistent, unbiased, ethical, correctable and open to employee input. Procedural justice satisfies needs associated with how employees define themselves (e.g. belongingness, standing, social reputation, respect). It communicates that employees are valued, accepted and respected members of the group. When employees feel this way, they are more likely to function in a self-regulatory way, which in turn increases motivation and the display of organizational citizenship behavior (OCB). OCB is extra-role behavior that contributes to organizational effectiveness but is not explicitly required (Brebels et al., 2011).

Not only the ethical leader's use of fair procedures has this positive effect. By **allowing employees voice** in organizational decisions, using rewards to encourage ethical behavior, and injecting ethical values in regular business activity, ethical leaders enrich the autonomy and significance of work. This sense of task significance then translates into extra effort and higher levels of the task and citizenship aspects of job performance (Piccolo et al., 2010). Giving voice can help to sharpen the edges of ethical dilemmas and highlight moral intensity. Moral issues will be easier recognized and solicit more complex forms of moral reasoning, which will lead more frequently to moral intents and moral behavior (Jones, 1991). Voice can discourage morally disengaged reasoning during discussions, e.g. the acceptance of euphemisms that cloud judgments.

On the organizational level public and corporate organizations have increasingly during the past two decades sought to reduce deviations from ethical standards by instituting ethics programs. An **ethics code** articulates core organizational ethics policy and serves as a psychological contract. The mere existence of such a code of conduct has no effect though, because they are ubiquitous and often perceived as a façade. It can even be harmful if it raises employee's awareness but does not supply them with the tools to effectively deal with moral dilemmas (Beeri et al., 2012). When formal codes of ethics merely exist, employees also assume that ethical decision making is top management's responsibility. An enforced code of conduct on the other hand, can have a very powerful influence on ethical behavior. (Kish-Gephart et al., 2010). It implies the alignment of rewards, systems & processes (e.g. performance management), role modeling and informal norms with the code of conduct.

Training programs can improve the moral reasoning capacity of employees and give the necessary tools. Employees can learn to recognize ethical aspects of problems, to identify alternative solutions, to develop independent and critical ethical thinking (Beeri et al., 2012). Training on ethical decision making should also include raising awareness of cognitive and social psychological mechanisms that influence ethical decision making, as e.g. the temporal dimension that allows us to deceive ourselves that we are ethical people.

The installation of moral decision-making processes is a third way in which organizations can increase the likelihood of ethical decision making. Gunia et al. (2012) found that organizational actors are able to alter own moral behavior (e.g. with a cooling-off period) and peer's moral behavior, even with minimal social interaction. They suggest installing multiple levels of approval, time to think and talk and interdependent workflows that encourage conversation. Paine L. (2006) developed an ethical decision making compass, in an attempt to combine quick ratios (e.g. "imagine your decision will be on the front page of the newspaper tomorrow") and less practical codes and principles. In the tradition of Socrates and Confucius, their starting point is to "Ask, not Tell". They propose to look at a moral issue through 4 lenses before taking a decision: Purpose, Principle, People, Power.

The value of an enforced code of conduct, training and the installation of moral decision-making processes will also depend on contextual factors, as e.g. the financial stability of an organization ("we can afford to let that deal go"), access to information (e.g. existence of an ethics officer) and an ethical culture that clearly communicates the range of acceptable behavior (Pelletier & Bligh, 2006). Giving employees the opportunity to contribute to the organization's ethics policy makes it also more likely that they will internalize it and will engage in ethical decision making down the line (Beeri et al., 2012).

Bazerman & Banaji (2004) argue that a focus on methods for improvement of intentionally corrupt behavior is necessary but not sufficient to address the issues. Organizations should go further and create environments where ethical decision making becomes the most likely thing to do. As behaving

ethically is not only a matter of reason, also the heart must be touched. This is less likely to happen through formal and rational top down communication and more through viral change (Herrero, L., 2008).

Once an organization is perceived as ethical, a viral effect will occur as more individuals with high moral standards are attracted. They prefer to work for firms that they perceive as ethical, where they can satisfy their desire to derive meaning from work and where they – next to economic and social rewards – also obtain ideological rewards.

5. Conclusion

“Aligning self-interest to social responsibility is the most powerful way to sustaining a company’s success,” says Starbucks’ CEO Orin Smith. A larger notion of responsibility is moving to the center of business leadership in the 21st Century. We’re moving away from the Milton Friedman adagio “live up to the law and maximize shareholder wealth” (Maak & Pless, 2006). Not only the notorious scandals in business and other institutions, but also the growing complexity of stakeholders push organizations to more transparency and higher moral standards.

Easier said than done. Academics still debate if ethical decision making is a rational or unconscious process. Recent neurological findings and studies prove that ethical behavior is also a matter of intuition. Cognition can be an enabler of ethical decision making and people differ in their conscious capacity to deal with moral. On the other hand, cognition can also enhance unethical judgments and behaviors. Same goes for conversation. It can increase ethical choice, but having a large network makes a person susceptible to overestimate the commonness of their moral ideas.

Ethical decision making can be improved in a rational and formal way e.g. assess, attract and develop moral reasoning competencies, enforcing an ethical code of conduct, installing moral decision making tools and procedures. This helps to counter less-conscious social and cognitive processes that make people blind and numb for the ethical consequences of their choices and behavior. But because ethical decision making is also an emotional and intuitive process, organizational ethical progress will also depend on empowerment and viral change. The fostering of a culture of voice and values by role modeling leaders should go hand in hand with installing explicit boundaries, tools & procedures.

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7. Appendix: propensity to morally disengage scale (Moore & al., 2012, p. 47-48)

Moral Justification

It is okay to spread rumors to defend those you care about.*
It is alright to lie to keep your friends out of trouble.*
Playing dirty is sometimes necessary in order to achieve noble ends.

Euphemistic Labelling

Taking something without the owner's permission is okay as long as you're just borrowing it.*
It's okay to gloss over certain facts to make your point.*
When you're negotiating for something you want, not telling the whole story is just part of the game.

Advantageous Comparison

Considering the ways people grossly misrepresent themselves, it's hardly a sin to inflate your own credentials a bit.*
Compared to other illegal things people do, taking something small from a store without paying for it isn't worth worrying about.*
Damaging property is no big deal when you consider that others are assaulting people.

Displacement of Responsibility

People shouldn't be held accountable for doing questionable things when they were just doing what an authority figure told them to do.*
People cannot be blamed for misbehaving if their friends pressured them to do it.*
You can't blame people for breaking the rules if that's what they were taught to do by their leaders.

Diffusion of Responsibility

People can't be blamed for doing things that are technically wrong when all their friends are doing it too.*
It's okay to tell a lie if the group agrees that it's the best way to handle the situation.*
In contexts where everyone cheats, there's no reason not to.

Distortion of Consequences

Taking personal credit for ideas that were not your own is no big deal.*
Walking away from a store with some extra change doesn't cause any harm.*
It is OK to tell small lies when negotiating because no one gets hurt.

Dehumanization

Some people have to be treated roughly because they lack feelings that can be hurt.*
It's okay to treat badly somebody who behaves like scum.*
Violent criminals don't deserve to be treated like normal human beings.

Attribution of Blame

People who get mistreated have usually done something to bring it on themselves.*
If a business makes a billing mistake in your favor, it's okay not to tell them about it because it was their fault.*
If people have their privacy violated, it's probably because they have not taken adequate precautions to protect it.
Items measured on a 7-point Likert scale ranging from *strongly disagree* to *strongly agree*.
Items in bold comprise the final 8-item measure. Items marked with * comprise the 16-item measure.

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