

CHAPTER II

2. LITERATURE REVIEW

Introduction

This chapter concerns the literature review and theoretical framework of this study. The primary purpose of the chapter is to show how and why business ethics came into academic discussions. That is, this chapter provided with the reasons why business ethics was considered important. Moreover, business ethics as a strategic issue was discussed. Thus it was clearly mentioned that a business that considers ethics in its daily activities has more advantage over businesses that take less attention to ethics.

This chapter discussed and provided with the understandings of three business philosophies - the dependent variables within this research. It is in this research that independent variables were also discussed from which the hypotheses were developed and those proposed hypotheses were outlined.

2.1 The history and importance of Business Ethics

Business ethics has its history from the late 1920's nevertheless without any major findings and nothing identifiable in the academic field until 1960's. According to DeGeorge, the rise of business ethics as an interdisciplinary academic field took place in the 1960-1970's, in the United States, once with the rise of social issues in business. (DeGeorge, 1987 and Friedman, 1970). It did not take long that the field

developed and by the mid 80's "there were 500 courses in business ethics taught", many books, casebooks, journals of business ethics accessible and even institutions were founded. As it is stated that, this study originated in United States but later European Scholars became interested in the American findings and developments in the field and initiated the European Business Ethics Network in 1994 (DeGeorge, 2005).

The importance of business ethics has grown significantly during the years and nowadays "business ethics is co-determined by a specific context" where the increased criticism and the disbelief in corporate ethics are at the heart of the stage due to the many huge companies that found themselves involved in ethical and social issues. (Verstraeten, 2000). Thus finally, there has been a move from the classical view of corporate responsibility, which defined businesses as single dimensional entities with one purpose of profit maximization and towards a more modern and philanthropic one. Businesses must serve a greater purpose than profit maximization and count for the well being of the society (Bordieanu, 2012). Friedman's (1970) famous statement "there is one and only one social responsibility of business –to use its resources and engage in activities designed to increase profits" is no longer accepted.

Furthermore, the swift changes our society has to face and the phenomenon of globalization has put the subject of business ethics in the spotlight. Thus, the study of business ethics has become essential not only for academia but also for business managers in their decision making process and for students in their evaluation of business activities (Crane, 2010).

2.2 Business ethics: a strategic issue

When business ethics began to enter the public debate in the 1970s, the position of Friedman (1970), regarding the social responsibility of business, produced a lively debate concerning the status of ethics in business. It is important to stress from the beginning of this section that the field of business ethics is dominated by influences from two domains: moral philosophy and “various sciences of business”. (Parker, 1998). Hence business ethics can be considered to be a contradiction in terms-an “oxymoron”- because there is an inherent conflict between ethics and the self-interested pursuit of profit. By ethics conflicts with profits, it simply means that businesses always choose profits over ethics stated by Velasquez, (2012:6). So Friedman major issue in the debate was: Are business and ethics incompatible in nature, or is their association something natural, which can be beneficial for the entire economic system? Various (economic, social, institutional, and political) developments have since gone beyond the view of a conflict between ethics and business and have moved the discussion towards a more conciliatory understanding of the relationship between business and ethics (Hart, 2009).

Furthermore Hoffman and Moore (1984) argue that the reason for this revolutionize in the business ethics debate is the increasing awareness that business is “a fabric of human relationships,” which should not only be defined by economic interests but also by the necessity of moral regulations that are essential to survival. This idea was also supported by Bordieanu, *et al*, (2012) that, in the actual business context, if companies has the intention to ensure long term success and sustainability,

both economical and non-economical aspects should be counted for as well as a much wider spectrum of business stakeholders interest need to be taken into account (e.g., employees, customers, suppliers and the general community).

It is the managerial obligation to take actions that protect and improve both the welfare of society as a whole and the interest of the organization. Before discussing the relationships between business ethics and strategy, we need to provide a definition of what business ethics is. According to Crane and Matten (2007: 5), business ethics is defined as the study of business situations, activities, and decisions where issues of right and wrong are discussed. In addition Carroll and Buchholtz (2008: 242) argue that: “business ethics is concerned with good and bad or right and wrong behavior and practices that take place within a business context.” And a relatively similar definition was recently given by Velasquez (2010: 15) that, “business ethics is a specialized study of moral right and wrong that concentrates on moral standards as they apply to business institutions, organizations, and behavior.

In many cases there has always been some controversy in relation to business ethics because of the different understandings that individuals have when it comes to define what constitutes ethics and what constitutes morality. According to Shaw, (2005) morality refers to a person or group’s standards of right and wrong or good and bad while ethics refers to the study and assessment of those standards. Then a relevant question here can be what is meant by moral responsibility. And the answer that can be given can be, holding people morally accountable for some past actions and individuals’ capacity to make moral decisions on their own (Shaw, 2005).

It is worth noting that Moral standards include the norms about the kinds of actions believed to be morally right and wrong as well as the values placed on what we believe to be morally good and morally bad. As it stands out from the later definition, the issues of both morally good and bad and morally right and wrong are at the heart of business ethics, despite the fact that they come from different disciplines: morals (right and wrong) and ethics (good and bad). Thus to deal with this aspect, I adopt Carroll and Buchholtz (2008: 242) and Velasquez, (2012: 15) perspective and consider ethics and morality “as being so close to one another that I may use the terms interchangeably to refer to the study of fairness, justice, and right and wrong behavior in business like Bageac *et al* (2010: 392) did in his work.” Commercial influences, such as one vendor’s slogan of “Ethics pays!”, summarize the relationship between ethics and strategy (Bageac, *et al*, 2010: 392). According to Velasquez, (2012: 7) argued that ethical behavior is the best long-term business strategy for a company which gives a company significant competitive advantages over companies that are unethical.

According to (Robertson, Fadil, 1999 and Zgheih, 2005) stated that, organizations have recognized the importance of ethics in their business dealings: good ethics is good business. When organizations are competing against each other for customers and for the best workers, the organization that has a good reputation of ethical behavior has higher advantage over one with a reputation of an unethical behavior. With regard to this relationship, we first observe that business ethics supports the legitimacy of a firm’s strategic behavior. It is ethics that ensure society’s

acceptance of the business's "right to produce" or "license to operate" Bageac, *et al.*, (2010: 392) and this was supported by Velasquez, (2012).

Similarly, Carroll (1979) argues that one of the first social responsibilities of a firm is economic and is concerned with a firm's financial performance. A firm that is not making a profit will quickly be out of business. Decision makers are acting ethically if they follow their firm's self-interest. The role of an organization is to survive and make a profit... if a manager's only concern is for the welfare of society, then the business would suffer. Without a decent profit for its owners, the business would no longer exist. The organization's employees, suppliers, and stockholders would suffer (Choy, 2012: 44). However, Suchman (1995) also maintained that acting ethically is also a necessary condition for a firm to stay in business. When a firm's behavior is perceived as unethical or inappropriate within the system of values of a particular society, the firm and its products and services are likely to be rejected as illegitimate, endangering the survival of the firm (Waddock *et al.*, 2002).

If a manager does not realize that without raising the ethical issues of how a profit is made, organization will lose or it will use unethical means. When we address the ethical issues facing organizations, we should also look at the competitive environment and how, the balance and integration of performance, productiveness and stakeholder values can provide gains in both economic and moral terms said by Choy (2012:44). Hence it is essential also when dealing with ethical issues of a business, a manager should always bear in mind that the organization should not only concerns itself with the moral standards but also to see to it that it contributes in

economic. That is, organizations are also morally accepted to be socially responsible and improve the life of the society as a whole but still making its profits.

It is essential for business students to realize that in most cases organizations are only concerned with making profits not the well-being of its employees and only uses them as tools to achieve its goals not taking them as human beings. According to Guest (2012: 111 and Velasquez, 2012: 98) maintain that Kantian ethics offers some core universal maxims suggesting that you should always treat others as you would have them treat you and that people should always be treated as ends in themselves and never as a means to an end. Legitimacy is an important issue linking ethics and strategy. Indeed, the lack of ethics can be particularly costly for a firm (Suchman, 1995). However, recent literature has begun to demonstrate the relativism of ethical standards across countries. For instance, political corruption, which has a strong impact on business strategies (Habib and Zurawicki, 2002; Meschi, 2009), is often perceived differently in different countries and cultures (Davis and Ruhe, 2003; Getz and Volkema, 2001; Husted, 1999; Martin *et al.*, 2007). This is due to the presence of different conceptions of business ethics based on different philosophies (Stevens, 1979).

2.3 Major business philosophies:

Stevens recognized and defined nine business philosophies in his 1979 seminal book, from which three are retrieved by the ATBEQ survey: Social Darwinism, Machiavellianism, and Moral Objectivism. Social Darwinism was developed by Herbert Spencer in which he combined Charles Darwin's theory of evolution and

natural selection and Adam Smith's "invisible hand" (Miesing and Preble, 1985). Social Darwinism is basically a utilitarian philosophy, which suggests that individuals should freely pursue their self-interest in a competitive environment.

There are two main consequentialist theories namely: Egoism and Utilitarianism. According to the consequentialist ethical theories, the right is determined by "weighting the ratio of good to bad that an action will produce" (Shaw, 2005). Egoism represents the view that identifies morality with self-interest and contends that an act is morally right if and only it best promotes an agent's long term interests".(Shaw, 2005). Adam Smith has been identified as the main contributor to the development of the Egoism theory. Thus, the focus in Egoism lies on the individual interests and wishes and has the purpose of maximization of these (Bordieanu, 2012).

Now it is evident that Social Darwinism theory also pertains in Egoism theory, since it is a theory that maintains that the various species of living things were evolving as the result of an action of an environment that favored the survival of some things while destroying others; that is the survival of the fittest and elimination of the weakest. Social Darwinism belief that economic competition produces human progress (Velasquez, 2012:171).

This idea was supported by Bageac *et al* (2010) that the idea of progress is an essential idea of Social Darwinism, whereas natural selection is a key element of progress for the biological world, natural selection in the business world is made possible through free market mechanisms. Social Darwinism is also an amoral philosophy, which argues that morality has no place in a business world governed by

natural laws (Miesing and Preble, 1985). Thus free competition in the economic world, just as the social or biological realm, ensures that only the most capable individuals survive and rise to the top and therefore, the best. The desire of domination and power over other people has been acknowledged as one of the main motives for action. (Dion, 2012). Social Darwinism is the most prevalent philosophy in business ethics (Neumann, 1987).

In order to count for the applicability of egoism in business ethics, the concept of enlightened self-interest or enlightened egoism is very relevant as it refers to corporations that “take on social responsibilities to promote their own self-interest” (Crane, 2010). Self-interest in this case may be improvement of brand reputation, workforce retention and satisfaction and “creating an improved and stable competitive context in which to do business” (Porter & Kramer, 2006).

Machiavellianism pertains to a business philosophy, which considers that a business firm is a self-contained organism with its own “natural” laws that can be bent but not broken and that efficiency should take precedence over virtue to succeed (Miesing and Preble, 1985).

Machiavellianism points that an action should be judged in the sense of ethics – not on the basis of the conformity of this action to any categorical imperative, rather to the efficient attainment of its goal. That is according to Machiavellianism an action is judged to be right or wrong based on the results it gives, in other words, it means that the end justifies the means. Machiavellianism is also an amoral philosophy as the end, which is usually winning, is a sufficient justification for the means (Miesing and Preble, 1985). Machiavellianism promotes a business philosophy based on what is

real, rejecting idealism: “people should believe in what they do instead of doing what they believe in” (Christie and Geis, 1970).

However, Moral Objectivism focuses on the ability to reason within the existing reality: rational action is the only conformity to reality, the most productive, and the only approach worthy of being called ethical (Bageac *et al*, 2010). Like Machiavellianism, Moral Objectivism is rational self-interest; but, contrarily to Machiavellianism, Moral Objectivism does not perceive the real world to be at odds with ethics (Miesing and Preble, 1985). Moral Objectivism argues that, an individual’s moral obligation is to attain their own well-being but in order to attain it, they ought to have a moral code, a sort of meta-ethic, valid for everyone. Therefore, following such a moral code is necessary for individuals to succeed and reach their personal goals (Bageac *et al*, 2010: 393).

3. Theoretical framework

3.1 International differences in attitudes toward business ethics

We are often tempted to consider that the globalization of trade, financial transactions, and technology is accompanied in equal measure by a globalization of culture. Indeed, the global distribution of certain clothing or fast food brands partly homogenizes consumption patterns (Levitt, 1983), but important differences still persist (Hofstede and Hofstede, 2005).

3.2 The societal variables (the national context)

A number of societal variables are acknowledged from the literature to explain differences in preferences for business philosophies. One of the most commonly mentioned factors is the wealth of the country. That is, countries that have different level of wealth can not have the same ethical values. This idea was supported by Inglehart (1997), stating that level of economic development is critical to explain differences in ethical values. Altruistic values (also termed “postmaterialist”) are most often observed in wealthy societies, and seem to show that charity only happens on a superfluous level, not by necessity (Bageac *et al*, 2010: 394). It is evident that more developed countries will have high ethical values while poor countries will often have less ethical values, hence the pursuit of one’s self-interest remains the prerogative of the least developed countries (Inglehart, 1997).

Addition to that Bageac *et al* (2010) pertains that in developed industrial economies, high levels of economic security, technological development, and education result in the adoption of post-materialist values that emphasize subjective well-being, self-expression, quality of life, as well as concern for the environment and others. More advanced countries have high possibility of social responsibility. Inglehart and Baker (2000) confirmed that individuals in high GNP per capita countries were more likely to adhere to post-materialist values whereas individuals in low GNP per capita countries were more likely to support traditional and self-interested values. Moreover, economic development level is negatively associated to corruption and the acceptability of unethical practices (Getz and Volkema, 2001; Husted, 1999).

Economic growth can be perceived as a second societal variable used to explain international differences in ethical values. In countries with economic growth, individuals are likely to be more concerned with their personal economic self-interest; whereas, in countries with a stable economic situation, individuals are likely to have adapted to their business philosophy and other considerations may be relatively more salient than their personal material resources (Kemmelmeyer *et al.*, 2002; Mauro, 1995). For instance, Kemmelmeyer *et al* (2002) hold that in countries where economic conditions are deteriorating, there is greater concern for personal economic well-being than with the natural environment. This higher emphasis on economic self-interest is consistent with Mauro's (1995) finding that corruption is negatively related to economic growth.

Reynaud *et al* (2008) also found that in Europe, respondents in countries with the lowest level of economic growth attributed the highest importance to both environmental and social responsibility. Politics also have a major impact on international differences in the adherence of ethics. It is suggested that two economic ideologies appear to be in conflict namely: Capitalism and Socialism. Capitalism includes a specific understanding of ethics, concerns on the pursuit of an individual's self-interest while Socialism concerns the group's interests over those of its individual members (Bageac *et al* (2010). Indeed, the adoption of a capitalist ideology in former socialist countries has led, a generation later, to the same self-interested values (England and Lee, 1974). It was mentioned previously that corruption is one of the most influencing factor for international differences in business ethics.

For instance, the results of Grimes' (2004) study shows significant differences in the level of cheating among students from Central Europe in contrast to their American counterparts. Spicer *et al*, (2004) also note that American expatriate managers in Russia are more lenient regarding some questionable ethical behavior (e.g., bribes) in their relationships with governmental authorities. Wated and Sanchez (2005) show a significant tolerance to corruption among Ecuadorian managers. In conclusion, high GDP, growth rate, and low corruption lead to higher levels of pro-social and lower levels of self-interested ethics.

TABLE 1

The societal variables indicators

Indicator	source	Lesotho	Indonesia
Corruption (2000–2008 mean. A higher score indicates a less corrupt country)	Transparency International (http://cpi.transparency.org/cpi2012/results/)	45	32
GDP/capita (2008–2012 mean, in U.S.	The world Bank C:\Users\User\AppData\Local\Temp\Rar\$DI10.5968\GDP per capita (current US\$) Data Table_CD.mht	1,193	3,557
GDP/capita growth rate (2012) average, in %)	Lesotho Bureau of Statistics ile:///C:/Users/User/AppData/Local/Temp/Rar\$EX61.717/Lesotho Bureau of Statistics.htm World Economy http://www.indexq.org/economy/gdp.php	3.7	6.2

Table I summarizes these societal variable indicators for Indonesia and Lesotho. Therefore, Indonesia business students are more likely to value business philosophies based on moral interests and Lesotho business students are more likely to value business philosophies based on amoral self-interest. Therefore, I propose the following hypotheses:

Hypothesis 1a: Indonesia business students value Moral Objectivism in business ethics more than Lesotho business students.

Hypothesis 1b: Lesotho business students value Machiavellianism in business ethics more than Indonesia business students.

Hypothesis 1c: Lesotho business students value Social Darwinism in business ethics more than Indonesia business students.

3.3 The individual-level variables

According to Furrer *et al.*, (2010); Ralston *et al.*, (2009) argue that individuals' ethical values and preferences for business philosophies can be influenced by cultural and institutional factors, and together with their personal characteristics. Hence due to the above mentioned reason, I intent to investigate the effect of two important individual-level factors such as religious practice and gender on students' attitudes toward business ethics. The first individual-associated variable relates to a religious dimension and it plays an essential role in the constitution of business ethics. In fact it is through religion that ethics were born. According to Mele' (2000) pertains that, theology offers reasons to act in a proper way, bringing an additional motivation to those based on philosophical aspects.

Religion is very important in people's life because it provides the guidance to live in this world. However, although almost everybody believes in God, the level of their responsibility and faith towards the religion is different. Because of that, number of the behavioral research measures the commitment in terms of religiosity which has deeper meaning instead of the religion itself to see the influence of religion to see how people behave. In addition, Rehman and Shabbir (2010) opined that different group of religious will have different belief from each other which become the important characteristics in studying the attitude of different people. In studying the influence of religion on ethical behavior and attitude, religion can be a most important factor to consider in understanding the individual conscience in this matter. According to Keller, Katherine, Smith, and Smith (2007), religion is a meaningful ethical

basis because the religious person can refer to religious teaching as the source of the ethical standard.

Religion is a social institution that shapes and controls the beliefs and behavior of its followers. Religion effects individual behavior through two sources. First, religion stipulates rules and obligations as well as sanctions that directly control and influence individual's behavior (Harrell, 1986), religiosity or religious commitment is "the extent to which an individual is committed to the religion he or she professes and its teachings, such as the individual attitudes and behaviors reflect this commitment" (Johnson, Jang, Larson and Li, 2001). Thus a person who is not committed to his or her religion does not fully follow his or her religious rules or he or she does not totally submit himself or herself to them.

According to Vitell, Paolillo and Singh (2005), religiosity is the belief in God and the commitment to follow the principles set in the religion. That means a person who practice his religion occasionally does not totally obey his or her religion's rules, and this could simply means that occasional practicing people have the same attitudes with non-practicing. Moreover, Huffman (1988) argued that religiosity was one of the strongest determinants of values. Hence, religious persons exhibit value systems that differ from those less religious and the non-practicing. Mokhlis, 2006. According to my understanding this means that since religiosity is a strongest determinant of values and distinguishes religious people from less religious and non-practicing, it goes without saying that less religious people are similar with non-religious because there is nothing that differentiates them when it comes to this point therefore similar.

Thus, due to the above reasons the researcher in this study considered students who claimed themselves as practicing religion occasionally and non-practicing as having similar attitudes towards business ethics in preferences of three business philosophies and were grouped as non-practicing during the analysis of data. In the questionnaires, religion is one of the demography variables and was divided into three parties namely: practicing, occasional practicing and non-practicing to measure students attitudes. The reason why this was divided into these three parties is that, some students even though are not fully practicing religion neither are non-practicing. That is some do practice religion sometimes and if the survey provided only two those who practice religion occasionally might have felt excluded or the survey could be bias.

In the Christian world “the doctrine of the Church has also inspired many practices shaping a paternalistic model of management that can be seen retrospectively as ‘socially responsible’”(Acquier *et al.*, 2005: 10). Ralston *et al.*, (1997) point out that the impact of religion on ethical values is more important than political ideology. This is consistent with the fact that “religious leaders teach the importance of certain values and denigrate others” (Schwartz and Huismans, 1995: 88). Nevertheless, Schwartz and Huismans (1995) argue that all religions are closely associated to the same individual values. All religions promote the values of respect of others (Ibrahim *et al.*, 2008; Schwartz and Huismans, 1995). It would therefore appear that the belief in a God, or the adhesion to a religion is more important when explaining the difference in ethical values than the religion itself (at least within the Judeo-Christian religions studied in the article, such as Judaism, Catholicism, Protestantism, and Orthodoxy) (Bageac, 2010: 396). Within these Judeo-Christian religions no differences were observed in ethical behavior between religions, only the level of religious practice appeared to explain the differences in terms of ethical behavior (Schwartz and Huismans, 1995).

So, religion practicing individuals are more likely to value moral business philosophies that is, Moral Objectivism and non-practicing students are more likely to value amoral philosophies name: Machiavellianism and Social Darwinism. Therefore, I propose the following hypotheses:

Hypothesis 2a: Religion practicing business students prefer Moral Objectivism in business ethics more than non-practicing business students.

Hypothesis 2b: Non- religious practicing business students prefer Machiavellianism in business ethics more than practicing business students.

Hypothesis 2c: Non- religious practicing business students prefer Social Darwinism in business ethics more than practicing business students.

Finally with gender, more studies suggested that women are more ethical than men and in the same time some researchers argued that men and women have the same perception towards business ethics, while other group even though not many maintained that in business men show more obedience to ethic than women. In this juncture I mentioned few studies from previous years until recently. One of the most representative studies is of Beltramini and Peterson (1984), which found differences across gender, showing that females are more concerned on ethical issues than males. Besides that, gender was one of the demographic factors analyzed in connection to ethical attitudes in a study of Arlow (1991), and his study was an extension of Meising and Preble in 1985.

In Arlow's study used a sample of full time and part time undergraduates from a business course. His results gave a difference across gender, implying that females' attitudes are more ethical than males. In fact, this results verified Meising's work, which had similar results. On the other hand, with regard to social responsibility dimensions, there was a significant difference between females and males in terms of seeing the role of a balance between the needs of the society and the different stakeholders, being scored higher by females. (Arlow, 1991)(Miesing & Preble, 1985).

We can see that there is a range of studies in this issue and most of their results are showing positive attitudes with females and negative with men towards ethics. In another important study that researched the willingness of engaging in an unethical behavior and its potential correlations with gender, males showed to be twice more likely to engage in an unethical behavior than females. The study was made on a sample of 213 undergraduates, where 50% of males were willing to buy stocks with information from an insider (Bertz & O'Connell, 1989).

Few years back, according to Phau and Kea (2007) research allots the superior value of ethics among female students of three countries studied (Australia, Hong Kong, and Singapore). The same results were found in the work of Peterson *et al*, (2001). Moreover similar results were recently found among Denmark and Romania students, thus females show more ethicality than men. That study was attempting to understand current attitudes of business students, in their role of future employees and prospective leaders of tomorrow and difference in attitudes from a gender perspective. The key findings are relatively consistent with previous studies, females' respondents indicating a stronger ethicality and morality (Bordieanu *et al*, 2012)

But it must be noted that with empirical studies results are inconsistent. In a study of McCuddy and Berger (1996), the results indicated not to have any significant differences across gender. In their work, they investigated a series of factors and their relationship with some selected ethical beliefs and hypothesized that there is a strong correlation of ethical beliefs with race, gratification and locus of control. With regards to gender they concluded that there is no significant difference across genders when investigating ethical beliefs. (McCuddy & Berger, 1996).

To make an example, Kidwell *et al.*, (1997) find no significant differences between men and women in relation to their ethical behavior. However, there are controversial results on the impact of gender of students' attitude towards business ethics because some studies revealed that gender has no role (Lowry, 2003; Dellaportas, 2006; Gholipour *et al.*, 2012), or it is situational only (Borkowski, *et al.*, 1998).

On the other hand, the results of a meta-analysis by Borkowski and Ugras (1998) show that female students exhibit more positive ethical attitudes than males. Even though, there is results inconsistency in this issue, but expectation is that women adopt more moral business ethics attitudes than men, who are more concerned on their amoral self-interest. Therefore, the hypothesized are:

Hypothesis 3a: Female business students prefer Moral Objectivism in business ethics more than male business students.

Hypothesis 3b: Male business students prefer Machiavellianism in business ethics more than female business students.

Hypothesis 3c: Male business students prefer Social Darwinism in business ethics more than female business students.