NHH - Norges Handelshøyskole and HEC Paris

Bergen/ Paris, Fall 2011

Positive ethical decision-making

On the need to understand how the human mind works in order to

improve business practice

Thesis Advisor(s):   **Lars Jacob Tynes Pedersen**

Authors name: **Richard Felix Heinrich**

Table of Contents

Introduction

"Economists and psychologists rely on widely divergent assumptions about human behavior in constructing their theories" (Chugh & Bazerman, 2004).

Business scandals such as the "Ford Pinto memo", in which managers relied on a cost-benefit analysis in order to evaluate a fuel tank modification which was known to possibly result in fatalities associated with crash-induced fuel leakage and consequent fires, not only renew attention on business ethics and responsibility of corporations and their managers, but also raise fundamental questions about the origin of "unethical" behavior.

Investigating the roots of unethical practices has drawn continuous attention in business literature and beyond. Ayton (a psychologist) asserts that the foundations of traditional decision-making research - and hence its' contemporary shape - have been strongly influenced by thinking from economical (and mathematical) disciplines. This influence has left its mark, as he argues, as economists and mathematicians have different "concerns" compared to psychologists. The question posed and pursued by the different thinkers on this topic was often not how people actually do make decisions but how, ideally, decisions should be made (Ayton, 2005). Consequently, research on "ethical failures" has mostly led to the development and refinement of normative theories on which moral imperatives should be taken into consideration during conscious ethical thought, resulting in theories of "optimal" moral reasoning and judgments, of which all, according to Painter-Morland (2008), find their philosophical justification in a specific worldview and anthropology.

The Ford Pinto memo, where the managers involved insisted that they did not "sense" the ethical problem at hand and hence did not engage in conscious moral reasoning and judgment processes on the implications of their (implicit) decisions, shows a fundamental limitation of purely normative approaches to ethical decision-making. It is business scandals like these that provoke "renewed" interest in the roots of misconduct and the field of behavioral ethics (i.e. descriptive approaches to ethical decision-making) in the recent past (Molinsky & Margolis, 2006). Descriptive (or positive) approaches to ethical decision-making add to normative theories arguing that unethical decisions can be made "outside the awareness of individual actors" - in contrast to the assumption of "deliberate cheating" (De Cremer, van Dick, Tenbrunsel, Pillutla & Murnighan, 2011).

This paper acknowledges the importance of positive approaches to ethical decision-making in order to improve business practice, however argues that although it appears at a first glance that "traditional"[1] descriptive approaches are helpful to better understand "unethical" behaviors, recent findings from behavioral ethics research indicate that the theoretical base of the traditional research paradigm insufficiently describes how individuals actually make ethical decisions.

This thesis elaborates in detail on the need to drastically review the theoretical base of the traditional research paradigm of descriptive approaches to ethical decision-making. Because of the focus of behavioral ethics on actual behavior of individuals, a revision largely draws from work in psychology, which is considered as the "scientific study of human behavior and thought processes" (Quinn, 1995). This thesis hence argues that the application of psychological insights is elementary in order to promote our understanding of business scandals such as the Ford Pinto memo – or why and how "good" people with best intensions can behave "unethical" as well. This view is in line with Bazerman & Banaji's (2004) claim that "efforts to improve ethical decision-making are better aimed at understanding our psychological tendencies". Tenbrunsel & Smith-Crowe (2008) too argue that it becomes increasingly necessary to not only "evaluate" but also understand from a psychological perspective how and why unethical behavior emerges, despite the presence of multiple control and monitoring systems. The perhaps best recent piece of evidence for the claim that psychological insights are valuable for business decision research is that a psychologist, Daniel Kahneman, shared the 2002 Nobel Prize for Economics "for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty" (Nobel Foundation, 2002).

---

[1] "Traditional" descriptive research poses that (un)ethical behavior is the (unique) consequence of a series of conscious processes, initiated by the individual becoming aware of a moral issue, before reasoning and judging on moral questions. During these processes it is generally claimed that the individual follows rational thought aka Kantian typology to different "degrees" - without any impact of the situation or the environment. The theoretical base of this approach is strongly coined by Lawrence Kohlberg's cognitive moral development theory and James Rest's "Four Component Model".

Context and research questions

An agent may reason well in moral situations, uphold the strictest standards of impartiality for testing her maxims and moral principles, and be adept at deliberation. Yet unless she perceives moral situations as moral situations, and unless she perceives their moral character accurately, her moral principles and skill at deliberation will be for nought and may even lead her astray (Blum, 1991).

Descriptive theories of ethical decision-making first matured in the second half of the past century. The inclusion of psychological insights into decision-making research has since then a history which is dominated by approaches rooted in the cognitive moral development theorem, mainly due to the work of Lawrence Kohlberg and James Rest. Kohlberg's "Theory of Moral Development" and Rest's "Four Component Model" were the first main positive approaches that aimed at conceptualizing the individual's ethical decision-making process. After having studied and theorized ethical decision-making, Kohlberg claimed that the level of moral cognitive development of individuals indicates (un)ethical behavior. And ever since Rest's Four Component Model, most descriptive theories of moral decision-making posit ethical behavior as the culmination of a multistage process - a process that begins with moral awareness or the "recognition of the moral issue".

Due to the claimed causality connections between the four different components, not only moral reasoning is regarded of primary importance for ethical behavior, but also moral awareness, since "issue interpretation is likely to set the premises within which subsequent thought processes take place" (Butterfield, 2000). This first component has sparked further interest in how theories of human cognition can be related to the ethical decision-making process, including some minor efforts to incorporate situational and contextual factors in their models (e.g. Treviño, 1986; Jones, 1991). Most additional research has been dominated by rationalist models (as proposed by Kohlberg and Rest) and moral awareness was commonly defined as the "recognition of moral reality" and thereby an individual-level phenomenon. Individual differences were considered as explanatory variables why some managers "see" a moral issue, whereas others do not.

Based on this research paradigm, several business ethicists such as Falkenberg (2004) argue that managers have come under "ethical scrutiny" over recent decades due to "lack of maturity" of individual moral awareness and reasoning. They commonly conclude that pre-

and conventional moral cognitive development[2] is insufficient as a basis for ethical guidance, relying on the individual level of cognitive moral development as the (main) explanatory variable for unethical behavior, while taking contextual and situational factors - if at all - only partially into consideration. Approaches based on Kohlberg's cognitive moral development theory are very popular, as they are thought to help to "explain" both why some managers are not able to "sense" an ethical problem, as well as how corporations and managers can differ on the extent of how they "reason through" ethical decisions.

In order to thoroughly understand the theoretical base of the cognitive moral development approach as well as the underlying assumptions, the first research question of this paper is dedicated to understanding Kohlberg's and Rest's approaches and further research which builds on their theoretical bases. It can be formulated as follows:

- *RQ1: How do "traditional" descriptive theories of moral cognitive development as well as related research which builds on this approach explain (un)ethical behavior and what are the main underlying assumptions of (the theoretical base of) this paradigm?*

It will be argued in the first part of this paper that when seeking to elucidate ethical failures, "traditional" explanations which build on the moral cognitive development theory promote the idea that most business scandals are the responsibility of a few unethical "bad apples". This approach is intuitively compelling and attractive to use, as DeCremer (2009) correctly argues, as it is a simple and straightforward solution and at the practical level facilitates the identification and punishment of those deemed to be responsible.

When describing the ethical decision-making process, Kohlberg and Rest were quite explicit that the cognitive mechanisms at work involve conscious, language-based thinking, as Haidt (2001) asserts. In line with the Kantian tradition, Kohlberg argues that in a moral decision-making process, individuals follow rational thought and are entirely objective human beings. Individuals can, according to this paradigm, "recognize" ethical challenges within a given context "to different extents" and be explicitly ranked e.g. on the basis to the extent to which their judgments on the pre-defined cases consider the judgments given as the most advanced (i.e. ethical).

---

[2] as stages of moral cognitive development according to Kohlberg

Yet although Kohlberg's and Rest's theory created a remarkable surge in descriptive ethics research, it also entrenched the field into their cognitive approach. However there are ample empirical evidences which stumble business ethicists who base their models on the cognitive moral development approach. Tenbrunsel & Smith-Crowe (2008) argue that several empirical studies of "ethics" that have been published in recent time provide "clear evidence that ethical thinking and behavior is prone to many of the same mental processes and pitfalls, some outside of consciousness, as the rest of human thinking and behavior". One critique to Kohlberg's and Rest's paradigm, and indeed pivotal assumption of this paper, is for example that managers, despite being aware of prescriptive normative approaches to ethics[3] and possessing advanced conscious moral reasoning skills, can nevertheless fail to perceive of ethical problems from a rich perspective, as this process is contingent on different moral capabilities as (conscious) moral reasoning.

More generally, as Chugh & Bazerman (2004) assert, economists tend to assume that individuals are fully rational, while psychologists, and in particular behavioral decision researchers, tend to identify the systematic ways in which individuals depart from rationality. Yet, while the two disciplines have offered different predictions of how individuals e.g. react to external stimuli, both groups have for a long while shared the implicit assumption that individuals will "accurately perceive the stimuli available to them" (Chugh & Bazerman, 2004). Several authors (such as De Cremer, van Dick, Tenbrunsel, Pillutla & Murnighan, Bazerman & Tenbrunsel) have recently challenged this tacit assumption that awareness is unbounded, and provide evidence that humans regularly and systematically fail to "see and use" stimuli and information (easily) available to them.

Several psychological barriers to "sound" ethical awareness and decision-making, which support the idea that the ethical mind is bound in many more ways than commonly believed, are discussed in this paper. Research on the notion of moral disengagement for example argues that individuals generally engage in automatic processes to avoid conflicts of interest, which consequently bounds their ability to perceive of ethical problems. A systematic cognitive bias in ethical decision-making is also described by psychologist Haidt (2008), who argues that "our human minds are not only historically designed to e.g. unite us in teams or divide us against other teams, but also to "blind us to the truth"." He considers it therefore of

---

[3]as e.g. communicated by their companies' code of conduct and mission statement

utmost importance to know our moral psychology in more depth in order to understand why and acknowledge that "everybody thinks he is right" (Haidt, 2008).

Moreover, the bounded ethicality model suggests that individuals often, without being aware of it, perceive their own judgments and behaviors to be more ethical than others (i.e. see themselves as more ethical than their peers, co-workers, and supervisors). As in this thesis moral judgments are found to be necessarily made when perceiving of moral problems, this concept of bounded ethicality is also of primary importance for understanding the process when the individuals become aware of ethical problems. Shu, Gino & Bazerman (2011) moreover interestingly add that while the bounded ethicality perspective emphasizes how unethical behavior results from our lack of awareness, a new line of research (with authors such as Ayal & Gino, 2011; Gino, Ayal & Ariely, 2009; Gino, Norton & Ariely, T, 2010) suggests that many of us explicitly are able to (and in fact often do) cheat with full awareness. They argue that individuals are even able to consciously violate ethical standards while maintaining a positive view of their own ethicality.

Evidence of people with highly developed conscious moral reasoning skills but with "poorly developed awareness", as well as clear empirical findings of people across the board seeing themselves as more ethical than their peers, even able to cheat with full awareness, cannot be explained by models based on the "traditional" cognitive moral development theory. Assuming that an important part of ethical decision-making, and in particular moral awareness, is contingent on different moral "capabilities" than conscious moral reasoning and judgments processes, the second part of this paper challenges the underlying assumptions of the moral cognitive development approach and investigates how individuals actually make ethical decisions, with a specific focus on the systematic ways in which individuals deviate from rationality or "optimality" in decision-making .

The second research question is as follows

- *RQ2: What are barriers to "sound" ethical awareness and judgments that lead to cognitive biases, and what are their implications on the theoretical base of the moral cognitive development theory, and hence the understanding of the entire ethical decision-making process?*

Perdersen (2009) asserts that individuals may conceive of ethical problems in many different ways, and therefore claims that a moral judgment must necessarily reflect the features that are

deemed morally relevant by the individual. He consequently argues that it is of utmost importance to understand how individuals come to conceive of situations as a "morally laden ones", i.e. which features of situations carry moral significance for the individual. Also this paper argues that understanding the content of the process how the individual sense ethical problem, is elementary to adequately evaluate any moral judgment. The second part of this paper therefore starts with elaborating in detail on questions Blum (1991) posed to all of us: "How do agents come to perceive situations in the way that they do and how does a situation come to have a particular character for a particular moral agent?"

This paper argues that Kohlberg's and Rest's theory of moral cognitive development insufficiently describes the fact that - what is truism in psychology - personality and situation "interact" to generate ethical thought and behavior, as do cultural and societal influences. The deficiency to account for contextual factors is considered a major shortfall of the theoretical base of the moral cognitive development theory. This is why existing theories rooted in the cognitive development approach must be considered to be incapable of simultaneously accommodating both the role of the individual moral agent and the community in which he or she participates, as well as the institutions with which he or she associates (Painter-Morland, 2008). And despite relevant theories in other closely-related fields (e.g. Fiske & Taylor, 1991) and attempts to steer research in this direction (Treviño, 1986; Jones, 1991), business ethics research has generally failed to adequately address the interaction between the individual and his or her surroundings (Reynolds & Ceranic, 2009).

A second major limitation of the cognitive moral development theory outlined in this paper is the emphasis on the role of rational thought to the point of excluding other decision-making processes such as intuition and emotions. Analyzing the process of how individuals become aware of ethical problems, Haidt (2001) conclusively shows that an individual's judgment when facing a moral problem is often intuitive and emotional. In his view, moral stimuli are often identified "spontaneously, unconsciously and automatically". Moreover, as already highlighted above, some decision-making processes are not only intuitive and emotional, but also motivated. Chugh, Banaji & Bazerman (2005) argue that (in the bounded ethicality model) self processes work unconsciously to protect a particular view and this view "bounds" sound ethical judgments. Ethical decision-making must hence be considered as being "biased by a "stubborn" view of oneself as moral, competent, and deserving, and thus, not susceptible to conflicts of interest". Since perceiving of ethical problems is found to already necessarily

include a value judgment, the process of ethical decision-making can consequently not be considered as four separate (and casually linked) steps as suggested by Rest.

The view that "automatic egocentrism" often precedes an evaluative moral judgment helps to better understand the concept of moral blindness (or "ethical fading") in business, in addition to the view that moral awareness cannot be considered a purely "technical process" of rational thought as suggested by Rest and Kohlberg. The difference of this former view to traditional approaches becomes more obvious when comparing business decisions to medical decisions. The decision of which medicine to prescribe for a particular condition of a patient involves not just making a technical decision about efficacy, but is also a value judgment concerning the relative acceptability of various side effects and risks, as MacDonald (2002) correctly asserts. The same accounts for business decisions. However, often in business, due to very salient technical or financial dimensions of a problem, as well as the tradition and habit to "camouflage" ethical issues as e.g. financial ones, managers often fail to "sense" that their decision has important moral implications and therefore do perceive problems wrongly and are morally blind. But in business as in medicine, if the clinical picture is wrong, even the best medicine does not help to cure the disease and can even lead to serious damage.

Based on the above presented limitations of the cognitive moral development theory, the position is developed that managers can be "blind" to ethical dimensions of problems e.g. when they think that a decision can be made based purely on technical or financial criteria. Unethical behavior does then not necessarily have to be due to the lack of moral reasoning skills and moral "intensions", as individuals do sometimes not "sense" the moral significance of the situation at hand. Consequently it can be argued, as Blum (1991) claims, that although many individuals may act unethically because they intend to, others do not "perceive" the relevant moral aspects of a situation and thus do not initiate in a conscious moral reasoning process. This indicates that unethical behavior does not need to be intentional, but that moral perception involves other moral capabilities as conscious moral reasoning. Hence even if individuals attempt to act "ethically", they are bounded in their ability to achieve ethical awareness and ethical decisions, a claim which is based on the concept of bounded rationality suggested by Simon (1957).

The presented argumentation supports the idea that not only prescriptive, normative moral theories are of importance for improving ethical decision-making, but especially positive

approaches (i.e. the understanding of our cognitive shortfalls). The fact that theories of bounded ethicality and moral disengagement can be applied to some of the great (i.e. costly) ethical business fiascos of our time implies that by improving moral awareness and competence, some future ethical catastrophes can be avoided. Therefore, the third part of this paper is dedicated to investigate factors that constrain, and factors that facilitate individual's ability to perceive of and judge on moral problems. The focus lies on approaches on how ethical decision-making of (future) managers can be improved through "moral" business education, as business students are believed to be at a very critical stage regarding the development of their perceptions about important business topics such as capitalism and leadership theory[4], hence areas in which significant moral problem dimensions can reside (in line with Piper, Gentile & Parks, 1993). Given the pedagogical focus of this part, existing teaching approaches at business schools will be critically assessed. Given the mentioned psychological barriers to sound ethical awareness, reasoning and judgment and the implications on the understanding of the ethical decision-making process, the third research question can hence be formulated as follows:

- *RQ3: In light of the barriers to "sound" ethical decision-making due to the individual's boundedness, how can moral competence of future managers be improved through "moral" business education?*

The third part of this paper addresses the question how moral competence can be improved based on the earlier developed view of ethical decision-making as problem-solving. The focus of this part lies on developing an approach on how to promote "moral" unconscious/ intuitive judgments of future managers (i.e. on how to reduce cognitive shortfalls in a sense of aligning our more unconscious intuitive judgments with our normative views). Based on the work of Pederson (2009) on strategies to counteract moral disengagement, a framework is developed which claims that the promotion of ethicality of unconscious processes happens through the "right" conscious experiences, which ultimately allow individuals to de-bias their cognitive biases. The behavioral approach to business ethics is found to be a necessary complement to more traditional prescriptive normative approaches, as descriptive knowledge about how the human mind works is crucial in order to promote the individual's normative views of how he wants decision-making to be.

---

[4] Yet it must be acknowledged that an undeniably important part of moral competence is developed throughout life

Structure and motivation

This paper is a theoretical-conceptual study which builds upon existing theories and approaches to ethical decision-making. The thesis is divided into three yet connected parts along the research questions. The first part aims to introduce the reader into main approaches towards moral decision-making, both descriptive and prescriptive. It critically discusses existing concepts of the cognitive moral development theory in the second part by identifying barriers to sound ethical problem-solving. Building on the view that the individual ethical awareness and judgments are bounded in several ways, the third part of this paper is dedicated to investigating factors that promote the ability of managers and business students to increase their moral competence through business education and thereby the ability to perceive of ethical problems. In this context, the role of (business) education especially in influencing the individuals' unconscious psychological responses to moral aspects of decisions is critically discussed, and recommendations of how to conceptually increase the individuals' moral competence will be presented. At the end of this paper, remaining challenges and future research implications are presented.

The work on this paper involved besides the consultation of economic theories other concepts especially from (cognitive) psychology and moral philosophy. This "cross-fertilization" is in line with research on other recent theories such as relating to organizational behavior, role theory, social learning and conflict theory, which were all partly derived from other disciplines, as well as with the tradition of business of "borrowing" from other disciplines such as anthropology, philosophy, psychology and sociology (Ferrell, Fraedrich & Ferrell, 2008). The thesis must consequently be situated in the crossroads between several social sciences.

The overarching purpose of the thesis is to contribute to a better understanding of ethical decision-making and ultimately to building what Ulrich referred to as the "new basis for a socio-economic rationality" and to seeking a "fruitful cross-fertilization" of several social sciences with the core topics of economics and business administration (Ulrich, 2002 in Pedersen, 2009). This paper will hopefully serve as a basis for critical reflection and discussion on the nature of unethical behavior for managers, business educators as well as business students, sensitize them to psychological cognitive barriers of "sound" ethical

judgments and finally give inspiration on how to promote moral awareness and competence in order to "approach" both education and business practice differently.

My personal motivation for this dissertation is the felt need for a more dedicated discussion of descriptive approaches of ethical decision-making and a better understanding of the interconnectedness between (business) ethical theories and psychological concepts, as my "journey" into the field of business ethics was dominated by purely normative approaches. With the desire to work in a business organization in my near future, I am extremely curious on more deeply discussing the cognitive mechanism at work when making (ethical) decisions, and in particular in understanding the role of moral awareness in this context, in order to pursue an engaged business career without "walking by" ethical challenges, while living a balanced life and continuing to grow as an integrated person. Looking back on my life I have seen me, as well as fellow students and work colleagues unconsciously "walk right through" ethical "dilemmas", without allowing ambiguity and nuances of the situation to affect me/them. In this context I often observed that instead of adding moral content to decisions, managers and business students link decisions to outcome variables and thereby reduce ethical problems to numbers and measurements such as relationships and reputation. The strong believe that there might exist a lot of unintentional unethical behavior which can be avoided motivated me strongly to work on this topic. Agreeing with Jordan (2009), I hence consider uncovering the factors that "bound" moral decision-making not only as interesting from a theoretical perspective, but is also imperative if we expect the existing challenges of management to be abated.

I think that there is little question that the business domain and corporations have a significant role in our everyday life as well as in forming our behavior. In my opinion, the enormous power of corporations is increased by the power that resides in big parts of society, as members of a culture where pure economic thinking is obtaining a dominant position. In this paradigm, self-interest, in particular, acquired a social legitimation and acceptance it had never previously enjoyed. I think that this partly explains that today there is still a great perception among managers as well as business students but also some parts of the public that profits motivated by self-interest, regardless of most other considerations, are the major driving force of business and sometimes even unethical means are justified in the relentless pursuit of profit (Hendry, 2004). A growing body of evidence however suggests that this self-interested behavior is learned behavior, and people learn it by studying economics and business (Ferraro, Pfeffer & Sutton, 2005). I consider especially business education affected

by an ethical malaise, with business schools around the world showing no effort to renew their "paradigm[5]" and thereby supporting that self-centeredness as a main characteristic of future powerful managers, while equipping them with highly specialized yet very fragmented concepts. Moreover, as this thesis claims, this paradigm or approach to problem-solving also strongly affects the values and intuitive, emotive responses to ethical features of situations of business students, which later have a strong influence on ethical behavior and the view of "ethicality".

I strongly agree with both Zsolnai and Ulrich and feel that it is time for a new ethics of responsibility, where we view ethics not only as inherent in business itself, but also as the foundation from which all business activities spring. In my opinion and as argued by Jonas (1984) there is no way out, since businesses cannot escape its responsibility in the future, but rather that this process will be intensified with every forward step in wealth and in power.

The following background chapter shall touch upon this discussion and be understood as an introduction into ethical debate as well as an outline of the understanding of ethics of this paper.

---

[5] The mentioned paradigm is exemplified in the way business schools still teach the model of the individual as a self-interested homo oeconomicus- "a mean-spirited and distorted view of human nature" (Zsolnai, 2002). That this model cannot only be criticized on normative ground, but also on empirical grounds, was shown conclusively by Zsolnai & Tencati (2009). The two business ethicists summarize overwhelming empirical evidence that suggests that the "homo oeconomicus" model of purely rational, self-interest-maximizing beings or agents is not true in the real world. They argue that people do not just care about their own material payoffs but also consider the interest of others. Individuals are for example willing to sacrifice their own material well-being to help those who are kind to them and to punish those who are unkind to them and take into account the well-being of strangers whose interests are at stake. Zsolnai & Tencati (2009) consequently summarized that the "most detrimental effect of the self-interest doctrine and the culture of contract is dissemination of the belief that behavior inspired by motives other than self-interest is conductive to economic disaster". Quite the contrary, as Zsolnai (2002) conclusively assert, trust, reciprocity and altruism contribute significantly to the civilizing process our societies are and were undergoing.

Background

"Relatively little reflection is necessary to understand that increasing commercial pressure on children, and exporting industrial production to countries with less strict environmental regulations are, to put it mildly, ethically dubious. It takes greater reflection to enable us to expose how our goal-directed economical choices might undermine our ability to be genuinely present in fragile social institutions outside economic life, or how our eye for the totality of nature is impaired by the fact that we are trained to evaluate it piece by piece and sectioned into resources that again create added value by economic standards" (Nyeng, 2007).

Scandals periodically erupt in the media, renewing attention to business ethics and the responsibility of corporations and their managers. Nonetheless, many times it is not "real" ethical dilemmas that are discussed in public. Instead, cases are brought forward in which human rights or "common morality" is clearly violated and the "ethical" answer is clear. Luban (2006) argued that managers involved in such scandals discussed in public often either "were ostriches, hiding their heads in the sand or they were foxes who understood the importance of not knowing too much and then managed to persuade juries that their carefully contrived ignorance was exculpatory". Whatever the technical arguments about legal culpability are, most reported business scandals represent actions of which the perpetrators surely knew or would have known that they were improper. They then decided to take those actions anyway, either rationalizing their decision or simply expecting not to get management, civil or criminal punishment (Kline, 2005).

These above comments highlight that Corporate Social Responsibility (CSR) is often considered to evolve when something obviously has gone wrong within - but not with - the market, as for example when weak, single parties were unfairly treated or when innocent third parties were directly hurt or threatened by corporate activity (Nyeng, 2007). More generally, most of today's CSR debates can be seen as a media phenomenon, in which the negative consequences of corporate "laissez-faire capitalism" action are discussed.

The last decade has seen the growth of financial and business power, but - inseparable from this - also the growth of the power and prominence of economic and market ideas resulting in [what Ulrich calls] "economic imperialism". As Ulrich (2006) states, neoclassical economics

is a result of a progressive, institutionally "unleashed" and normatively "disinhibited" economization of all areas of life. Due to this widely accepted "form of reasoning" those leaders seeking to maximize their earnings in ways that they think are legitimate based on a straightforward cost-benefit analysis get confused. Some do not understand that one does not necessarily have to break a law to be subject to "ethical" criticism. Consequently, just at a point when conversations (and the business case) turn to the unpleasant for corporations, these business leaders put huge efforts into avoiding (or assigning) blame. They then create new "rules" and "codes of conduct" in order to prevent a recurrence of the same or a similar failure, aiming to control and minimize the damage to relationships and to the reputation of the corporation. However, these approaches to CSR are reactive in nature. Due to their nature and the dynamics within the domain of business, these passive strategies seldom help to "prevent" a recurrence of an ethical failure. Furthermore, the creation of new codes of conduct is often only a response to a static snapshot picture taken of the "moral reality" which the firm faces in that particular moment. These snapshot pictures of obvious violations are mostly fractional and only apply to very specific business processes. Hence, the response is of too "low resolution" and does not offer a solution to the complex and constantly changing demands of CSR.

As argued in the above paragraph, CSR is usually demanded (and put to test) when someone notices that something evidently has gone "wrong". In most cases the CSR responses are passive and fractional, while the institutional framework within which it has gone wrong is not challenged. The most obvious (and simple) explanation for the unethical practice is the misuse of power and underdeveloped, pre-conventional moral reasoning of single managers - so called "bad apples" - or entire corporate decision-making bodies. Seen from this perspective, the several high-profile cases of the past decade can be seen as nothing more than an "epidemic of dishonesty, cheating or even outright theft". As Luban (2006) points out, they stand for a failure of single executives and professionals in which people trusted them to know better than and to do better than they did, expecting them to honor the most basic rules of Sunday school morality.

However, as Ulrich (2006) postulates, business ethics cannot merely postulate more ethical obligation within the existing market economy. Rather, it should conceive of itself as critical ethics of economic reasoning as such, since the approach to business ethics that is currently being extolled in many business and academic forums as well as by the public still implicitly

contributes to the dissociation of ethics from business practice (Painter-Morland, 2008). Ethics is mostly portrayed as a set of given principles that must be applied to each business decision, where it then functions as a final hurdle in a deliberate decision-making process. The questions that inform business processes are usually similar to "May we do this?" or even more cynically "Can we get away with this?" (Painter-Morland, 2008). When approached in this manner, ethics must be considered more as a "mean" but not as a "chosen end", which people consider after having interpreted events and determined what they want to do. In line with this, Ulrich (2006) argues that the status quo of business ethics is mostly either functional or corrective. Functional in the sense of promoting more power-based, benefit maximizing economic rationality, which follows the market principle and where only benefit-oriented conditional cooperation between self-interested, mutually unconcerned individuals exists. Corrective as an antidote to too much economic rationality aimed at a justice-based ethical reasoning, according to which individuals are respected and the recognition of the equal dignity of persons is unconditional.

Seen from the above described perspective, most existing CSR approaches are strongly disconnected from more fundamental questions of business activity, exemplified in strategic philanthropy, which can only be considered as "a bandage that misses the wound". Thereby, as Kofi Annan in connection with the Global Compact asserted, CSR does "not request companies to do things different from their normal business, but to conduct normal business in different ways". However, seeing ethics as an external element or some value that can be added to business has the consequence that most everyday business decisions are pursued either without or with only partial explicit ethical justification. This idea of simply "keeping business clean" is opposed to what is needed.

The alternative view sees corporations (amongst other things) as critically questioning their existential rights and if their corporate activity is in the interest of society and able to promote the "good" society and human "flourishing", rather than improving single processes within the existing economic reasoning. As Nyeng (2007) asserts, the basis for all discussion about social responsibility has to be "our experience of the relationship to other citizens as a real community, and consequently that a viable civil society exists, a society where we are able to discuss and assess the role of the economy in the community". If not understood in this way, we - instead of ethical responsibility - have to talk about an "extended economic responsibility", a responsibility for making profit-seeking behavior decent - a concept that

does not question economic goal development and growth itself (Nyeng, 2007). This line of reasoning can be translated into critical comments on the existing shareholder maximization paradigm, according to which shareholders want their managers to get on with the job in hand and not to constantly worry about why they are doing it. Here, managers are held responsible for the means by which corporate goals are to be achieved, not only for the goals themselves (Hendry, 2004).

Through globalization and technical progress, transnational corporations have become more powerful (i.e. physically, financially and intellectually) than probably ever before. They are able to influence society to the good and to the bad. As Zsolnai (2006) states, economic globalization has resulted in shifting power away from governments which are responsible for the public good towards "a handful of corporations and financial institutions often driven by a single imperative **-** the quest for short-term financial gains". This partial reversal of the power between business and governments was accompanied by an economic globalization that outpaced the political globalization, especially in an international context. Corporations nowadays debate important matters such as taxation, human rights and environmental impact. In the existing market logic, managers commonly claim to have little opportunity to take a moral stance in public companies, even if they want to. Shareholders demand returns, which means that stock values need to appreciate at least as fast as the market average. Otherwise, incumbent managers will be removed and new ones appointed. This limits existing CSR interventions to those which can be seen as strategically sensible, by markets and customers. By reifying economic laws and the market mechanism, managers and decision-making bodies conjured up an idea of "powerlessness" in regards to more ethics in business.

However, in the light of the perspective proposed by (amongst others) Ulrich, the argument of "powerlessness" is weak. Ghoshal (2005) argues that when managers justify their actions by pleading powerlessness in the face of external forces, it is to "the dehumanization of practice that they resort". Consequently, when managers claim that competition and capital markets are "relentless" in their demands and that there is no room for managers to choose between different options, it is "on the strength of the false premise of determinism that they free themselves from any sense of moral or ethical responsibility for their actions" (Ghoshal, 2005).

Ethics needs to be viewed as an integral part of the practice of business and as the basis for a different socio-economic rationality. This implies that every one of us needs to view ethics

not only as intrinsic for business in itself but as the basis from which all business activity can spring. Only then do ethics inform individuals' perceptions of events and play an important part in shaping their responses. However, as Painter-Morland (2008) writes, this kind of ethics is not based on the deliberate application of general principles, but instead draws on tacit knowledge and individual discretion. It makes business clearly more complex and challenging. It is also opposed to what most business schools aim for, which is to make management more efficient with the application of general principles.

Summary

This paper argues that the mainstream conception according to which ethics is only an instrument for improving business functioning is wrong. The argument has previously been put forward by the New Agenda for Business Ethics presented by Zsolnai (2006). In order to make sure that business serves society and promotes the conditions for human flourishing all over, business ethics must be seen as being fundamental for all economic activity. It should conceive of itself as critical of existing economic reasoning as such. This understanding of ethics builds on the critique of scholars such as Ghoshal who claim that while morality is inseparable from human intentionality, the denial of any moral or ethical considerations in our theories and prescriptions for management practice has been a "precondition for making business studies a science" (Ghoshal, 2005). The perspective of viewing ethics as the foundation of business has in fact strong historical roots. For several millennia, economics was a subcategory of moral philosophy. In ancient Greek philosophy and in religion, the discourse on the nature of economic activity and ethics was often intertwined and business was viewed as an integrated part of social life (Pedersen, 2009).

Since CSR is not only a whole which needs to be filled with moral content, today's managers need to also develop a thorough understanding of the social challenges that we currently face. Seeing ethics as the foundation from which all business activity springs also necessitates deeply engaging with existential questions of business activity. Ethics should as well, as Nyeng (2007) conclusively asserts, be reserved for the "reflections that really challenge our predominant thoughts, reflections that make us conscious of the thoughts that are connected to a given view of human nature and society". The latter claims are especially salient in an international context, e.g. when operating in states with weak governance and inadequate background institutions. These circumstances require managers for example to critically

engage with questions regarding the commonly accepted division of responsibilities between the state and the private sector as well as with common business practices and motives such as the shareholder-value-maximization paradigm. In practice, asking oneself how to contribute to a better society and to improving conditions for humans is complex and challenging. The implications of this perspective are manifold. For oil companies taking an "ethical" view on their business activity can e.g. lead to the conclusion that they are not only responsible for violations of e.g. human rights in their production process or oil spills, or for engaging in corrupt practices or similar. Beyond these "obvious" considerations, engagement with more existential questions might result in the acknowledgment of responsibility for their contribution towards the decline of non-oil-producing sectors of an economy; or for responsibilities which are assigned to governments; or for acts which are exercised by inadequate governments, financed and indirectly supported by taxes from oil revenues.

Implications of this perspective for individual managers are also many-sided. The view which has become commonplace, that is to see managers as "morally neutral technicians" engaged in a world of rational problem-solving in the pursuit of economic efficiency, is no longer valid, since in this perspective ethics is an integral part of the practice of business, if explicitly and consciously so or not. Also the often found argument of business leaders that "ethics" might divert their companies from its "primary" objectives and, as a result, cause them to be inefficient and to deprive stockholders of their "legitimate" return becomes inconsistent in itself. It shows that as a term, "ethics" is commonly misused to signify some ideal but unrealistic standard that bears little relationship to practical daily decisions (Kline, 2005). Thereby, the logic barely follows an ethical taught at most business schools such as the neo-liberal views on business activity, which states a clear-cut division of responsibilities and the provision of public goods between governments and corporations and a shareholder value maximization paradigm within, as Milton Friedman asserted, "the rules of the game".

1. Part one: Understanding ethical decision-making

As asserted in the background part of this thesis, when facing an ethical problem, managers cannot escape moral decisions. They cannot remain neutral on moral issues as not to decide is to decide by default; consciously or unconsciously. This chapter introduces the main approaches of ethical decision-making.

Decision-making research commonly distinguishes between actual (descriptive or positive) and ideal (normative or prescriptive) decision-making (Ayton, 2005). The psychologist Lopes asserts that whereas "economics considers itself a normative science, the very term an oxymoron of ought and is", to psychologists it is evident that people cannot conceivably take into consideration all the relevant information that normative models require for judgments and decisions (Lopes, 1994).

Traditional descriptive ethical decision-making models generally divide the influences on the individual's decision behavior into two broad categories. The first category includes variables associated with the individual decision maker. The second category consists of variables, which form and define the situation in which the individual makes decisions (Ford & Richardson, 1994).

Ethical decision-making is a topic of great interest in the literature of business ethics. In an effort to explain and predict the process by which a manager makes (ethical) decisions, a number of authors have proposed a variety of theoretical models. Initially, taking ideas from psychology, scholars such as Kohlberg proposed that the concept of cognitive moral development may be useful in understanding the ethical decision-making process in business (Nelson & Obremski, 1990).

Rest's Four Component Model - which is presented in detail in the following chapters - is probably the most well-known descriptive ethical decision-making model. His model focuses exclusively on morality and Rest is very explicit about the psychological processes that he considers as relevant prior to moral behavior: 1) interpret situation and create alternative actions 2) choose alternative based upon some form of consideration 3) prioritize this morally value-laden choice above amoral values and associated choices 4) intend to perform action (Rest, 1986). In order to be able to allocate Rest's descriptive model of the ethical decision-

making process in the theoretical context, an overview over the main approaches and extensions to decision-making models (both normative and descriptive) is presented in the following chapter.

1.1. Existing theoretical conceptions of moral decision-making

This chapter aims to provide an overview over existing theoretical approaches to moral decision-making. Research on moral decision-making process was for millennia dominated by normative models, but descriptive (positive) models have been gaining momentum lately. The research object has traditionally been the individual decision maker, increasingly including contextual variables. Existing theoretical ethical decision-making models have presented numerous variables that are thought to influence ethical choice, and thereby provide a knowledge base for which factors might influence ethical decisions. Variables related to an individual decision maker are e.g. nationality, religion, sex, age, education, employment, and personality. Situation specific variables typically examined are reference groups, rewards and sanctions, codes of conduct, type of ethical conflict, organization effects as well as industry and business competitiveness (Ford & Richardson, 1994).

Normative models have traditionally focused on principles and rules for "ethical reasoning" (similar to Rest's second step). The most influential normative approaches shall therefore be discussed shortly later in this chapter in the ethical reasoning paragraph. The reason that they will be discussed at a later stage displays one major lack over descriptive theories - the fact that they are not able to fully account for the process when the individuals become aware of the ethical issue. This highlights why normative approaches are often considered insufficient for explaining the entire decision-making process, since as argued in the introduction and as a main assumption of this paper, some people act unethically because they decide to; others may fail to "sense" the ethical aspects of the situation at hand and thus run the risk of acting in an unethical manner because they do not "initiate" conscious ethical reasoning (Reynolds, 2008). De Cremer, van Dick, Tenbrunsel, Pillutla & Murnighan (2011) highlight that a normative perspective suggests, or at least implies, that "people can interpret moral problems in a conscious manner and that cognitive guidelines can be used to avoid ethical lapses". Criticisms of normative models of business ethics, which often assume absolute truths about appropriate decision-making, therefore led to the development of positive perspectives and models. Positive models of ethical decision-making intend to describe what actually occurs in the organization and the individual, versus normative models that address what should occur.

Unlike normative models, which specify decision rules for how to make an optimum or correct decision, positive models are more readily evaluated, using scientific modes of inquiry (Ferrell & Thorne, 1993).

Individual approaches

The two psychologists Lawrence Kohlberg and James Rest mainly defined individual approaches in positive theories. Their models were extended in order to emphasize both the individual role and situational variables in "producing" (un)ethical behavior. Many important contributions to business ethics have used these approaches in the modeling and research of business decision‑making and behavior (e.g. Ferrell & Gresham, 1985; Hunt & Vitell, 1986; Treviño, 1986; Jones, 1991). The theoretical underpinnings of the cognitive moral development theory identify key constructs that are believed to have the greatest effect on an individual's ethical decision-making. Most positive models building on this work continue to propose that cognitive moral processing of the individual is the key element within the context of ethical decision-making. For this reason unethical behavior in organizations has until very recently mostly been attributed to person-based characteristics (such as the "bad apples" approach). As Ford & Richardson (1994) assert, several different individual factors have been found to influence ethical decision‑making. These factors include variables that are a result of birth (personal attributes as e.g. nationality, sex, age) as well as those that are a result of human development and socialization process (as education and employment background, personality as e.g. attitudes, values, religion, gender; moral philosophy etc.). The resulting influences on ethical decision‑making found empirically were mixed. In other words, the mentioned factors could be related to an individual's ethical beliefs and decision-making behavior in some studies but not in others. For example, Treviño & Youngblood (1990) found that people at higher stages of moral development were more likely than those at lower stages to behave ethically in a business situation. Similarly, some investigations (Ferrell & Fraedrich, 1992) and theoretical models (Hunt & Vitell, 1986) have proposed that one's personal moral philosophy strongly affects ethical decision-making.

Kohlberg

Kohlberg's Theory of Moral Development provided what is generally regarded as the first and one of the most thorough psychological treatment of ethical decision-making (Reynolds & Ceranic, 2009). Jean Piaget originally constructed moral development theory and its

methodology as a result of studying children's morality. In the mid 1950's, Kohlberg expanded Piaget's stage model from three to six stages and intended to also draw inferences about adults. Kohlberg constructed, and has periodically refined, a qualitative interview method. His stages of moral cognitive development range from the overly simplistic pre-conventional stages (i.e., Stages 1 and 2) where the decision-maker reasons based on rewards or punishments from an authority figure to the post-conventional stages (i.e., Stages 5 and 6) where the decision-maker reasons apart from an authority figure's wishes and understands that moral decisions involve relativism (Jordan, 2009). As already mentioned in the introduction, Kohlberg (1981) asserts explicitly that "the nature of our sequence is not significantly affected by widely varying social, cultural, or religious conditions. The only thing that is affected is the rate at which individuals progress through this sequence".

Rest

Using Kohlberg's work as a basis, Rest (1986) developed a refined measurement instrument (the Defining Issue Test or DIT) directed at the study of both children and adults. The ultimate goal of his studies was to better understand and predict the process of ethical decision-making and ethical behavior. In order to determine the stage of moral development of individuals, Rest - like Kohlberg - let individuals judge on pre-defined cases of ethical problems and then ranked these individuals on the basis of their moral development. Unlike the systematic stages Kohlberg (1969) proposed, Rest (1986) offered a continuum model in which there are no distinctions between stages. Rest (1986) extended Kohlberg's model and identified four discrete steps involved in ethical decision-making: moral awareness, moral judgment, moral intention, and moral behavior. In his influential analysis of moral development, Rest argued that the process of ethical decision-making contains four components in which the ethical agent 1) recognizes an ethical issue, 2) makes an ethical judgment, 3) establishes ethical intent and 4) acts on the ethical concerns (Rest, 1986). His process theory of moral development represents a logical and systematized approach to ethics, where the most common moral philosophies (i.e. normative approaches to ethics) are represented in Kohlberg's six stages (Marnburg, 2001).

Figure 1: Rest's Four Component Model (own graph)

Rest's model begins, as mentioned, with an individual's "interpretation" of an ethical problem. Rest posits that the recognition by a moral agent that a situation raises an ethical issue describes the first component "moral awareness". Specifically, the individual is believed to identify various actions that may be possible and determines what the consequences on the parties involved would be. Moral awareness is understood to be the first step in an unfolding ethical decision-making process because issue interpretation is likely to set the premises within which subsequent thought processes take place. Secondly, the individual makes a moral judgment about the possible actions, which allows him to choose one action as being considered morally "right", "sound", "just" or "fair". Intention is the feature of the third component of the model. The moral intent or moral motivation identifies which values should take priority in the decision and expects the individual to intend to act in the morally right manner. The fourth component of the model involves action and describes acting on ethical decisions as moral behavior or moral character. That is, the individual follows through on the intention to perform in the morally right way (Rest, 1986). Effectively completing one stage does not imply the success of subsequent stages. Thus, an individual may possess moral judgment but fail to establish moral intent, and ultimately fail to behave ethically (Shu, Gino & Bazerman, 2011).

Situational approaches

It was argued that positive approaches towards ethical decision-making have mostly considered the individual and his level of moral cognitive development as the "major ingredient" for (un)ethical behavior. Especially the business discipline has focused on developing alternative models to describe the ethical decision-making process in the context of a business organization. Criticizing individual approaches to ethical decision-making with a widely documented cognitive bias that psychologist label the "fundamental attribution error[6]" - the tendency to overvalue the importance of individual character and undervalue the role of situational factors in shaping behavior - these models dominant in critical management literature try to explain (un)ethical behavior with reference to contextual and situational factors (Rhode, 2006).

---

[6] This is indeed a well-documented tendency in social psychology research and highlights the fact that individuals tend to overweigh the importance of the individual and underweight the importance of the situation.

Although several different scholars have tried to account for context/situation-related variables, they still mostly built on the theoretical base of the cognitive moral development theory as proposed by Kohlberg and Rest. Of these models, which included factors associated with the situation, some make the distinction between situations specific, overall organizational, and general environmental variables. They have in common that they claim that the variety of situational forces are conceptually distinct from the individual factors (Ford & Richardson, 1994). Among the other situational factors proposed to influence ethical behavior were e.g. reference groups (such as peer group influence, top management influence) rewards and sanctions, codes of conduct; organizational factors such as organization effects, organization size, organization level; and industry factors including industry type, business competitiveness etc. (Ford & Richardson, 1994).

Jones' (1991) moral intensity model provides a relatively comprehensive synthesis model of the mentioned approaches to ethical decision-making. The model tries to integrate previous ethical decision-making models representing overall agreement regarding the variables that influence ethical decision-making. Jones believed however that previous studies failed to consider the "nature of the ethical issue", which is why he defined moral intensity as the "extent of issue-related moral imperative in a situation" (Jones, 1991).

Kohlberg's and Rest's theory of moral development were often believed to insufficiently describe the fact that personality and situation interact to generate behavior, an idea that is considered a truism in psychology. Treviño (1986) proposed an interactionist model of ethical decision-making in organizations. Treviño's model combines individual variables (moral development, etc.) with situational variables to explain and predict the ethical decision-making behavior of individuals in organizations. She identified three individual variables (ego strength, field dependence, and locus of control) and proposed that they influence the likelihood of an individual to act according to his or her cognition of what is right or wrong (Treviño, 1986). Furthermore, she identified situational variables arising from the immediate job context and the broader organizational culture to "moderate" the cognition/behavior relationship. These variables included the organization's normative structure, referent others, obedience to authority, responsibility for consequences, reinforcement contingencies, and other pressures (Treviño, 1986).

However, despite explicit attempts to steer research in the direct where the individual interacts with the situation such as by Treviño, ethical decision-making research has failed to sufficiently address the interaction between the individual and the environment. This is also noted by Painter-Morland (2008) who claims that the existing approaches have not yet adequately captured the important interfaces among individual and situational variables. She asserts that most existing moral theories are incapable of simultaneously accommodating both the role of the individual moral agent and that of the community in which he participates, and the institutions with which he associates. The locus of control in morality is still ‑ almost invariably ‑ exclusively associated with either one or the other (Painter-Morland, 2008).

Concluding, most existing descriptive models based on the cognitive development theory posit that the identification or "recognition" of an ethical issue triggers the process of ethical decision-making. If the individual fails to recognize the presence of an ethical issue, subsequent steps (e.g., reasoning, judgment, intent, and behavior) do not launch (Hunt & Vitell, 1986). Trying to explain for the lack of initiating a moral decision‑making process, models first focused merely on the individuals, whereas later especially business ethicists tried to integrate individual approaches with the context of their application. However, since most models have not managed to do this successfully, this shows that morality must be understood as antithetical to the theory-practice divide on which most modernist approaches to ethics are based (Painter-Morland, 2008). In order to fully understand ethical decision-making, the possibility cannot be excluded that we need to change our understanding of how individuals make sense of situations, with regards to the individuals' psychological make‑up as well as contextual/situational factors.

To investigate on this possibility, existing theoretical approaches must be understood thoroughly. As Rest's Four-Stage-model is considered the theoretical base of descriptive approaches to ethical decision-making, and most complementary theories build on his concept, this paper uses his four component division as an organizational scheme to summarize existing contributions to the topic in more detail. The main focus of this thesis is on the initial stages of ethical decision-making, hence the role and understanding of moral awareness and moral reasoning/judgments. To clearly differentiate descriptive approaches from normative approaches, main theoretical contributions for both approaches shall be summarized. Although not being the focus of this paper, normative theories are considered

important to better understand descriptive approaches to ethics, in accordance to Robbins and Wallace who claim that in order to develop a complete decision support system for ethical problem-solving, an understanding of both normative and descriptive theories of ethical behavior is necessary (Robbins & Wallace, 2006). The different categories of normative ethical decision-making techniques that "stand out" (as such character-based, consequences-based and virtue-based) are therefore introduced under point 2.1.4 within the moral reasoning / judgment component of Rest's model.

1.1.1. Moral awareness

According to Rest's conceptual model of ethical decision-making, moral awareness is considered a fundamental part of ethical decision-making. This first stage is considered critical because identifying an issue as "ethically significant "is believed to initiate the ethical decision-making process, making ethical behavior possible in the first place.

Weaver, Morse & Mitcham (2008) assert that the notion of ethical sensitivity[7] was originally introduced to caring sciences (i.e. nursing ethics) to describe the first component of decision-making in professional practice (as the applied field of ethical decision-making); that is, recognizing and interpreting the ethical dimension of a care situation. Scholars of different professional disciplines have since then conceptualized the notion in various ways. A majority of these notions are - in accordance with models on the entire ethical decision-making process - indirectly or directly derived from the cognitive moral development paradigm, as Patterson (2001) points out. However, while most scholars agree that moral awareness is vital to practice, there has been no consensus regarding its definition and its characteristics or the conditions needed to become morally aware (Weaver, Morse & Mitcham, 2008).

Rest (1986) explicitly describes the first stage of the ethical decision-making process as a conscious and reflective process. He argues that identifying a moral issue involves an interpretive process during which the individual recognizes that a moral problem exists, or that a moral standard or principle is relevant to the circumstances. Rest emphasizes that an

---

[7]Moral sensitivity was Rest's label for component one; Jordan (2009) on the other hand used moral awareness in her research claiming that the cognitive basis used for the main hypotheses stems from research on cognitive awareness (Fiske and Taylor, 1991) and because all other investigations within the business domain have also used this label (such as Butterfield, Treviño & Weaver, 2000; Reynolds, 2006). This paper will use the expressions similarly.

individual must first recognize the moral component of a given situation before moving on to further processing. This is in accordance with Kohlberg's (1969) notion that a moral judgment requires a conscious cognitive activity that results in a qualitatively more or less complex cognitive assessment of the situation, depending on the stage of moral development (Seiler, Fischer & Ooi, 2010). This causality connection found in Rest's and Kohlberg's study is adopted by most other scholars. E.g. it is argued that moral issues are rarely equipped with "red flags" identifying them as morally questionable, but must be recognized first (Butterfield, Trevino & Weaver, 2000). When lacking moral awareness, such as in the famous Ford Pinto case, individuals - in the words of Rest - do not interpret situations in ethical terms and do not engage in further ethical decision-making stages.

Rest's assumption of moral awareness as recognition of ethical problems that objectively exist made him believe that its' intensity can be measured and ranked by scoring on predefined questions on ethical dilemmas, since individuals do recognize the ethical content "to different extents". His approach could thereby be applied to Kohlberg's theory of moral development, although Rest denied the strict stage division of Kohlberg. The importance of the individual's moral cognitive development on ethical awareness has also been analyzed by various other scholars. Shaub (1989) for example finds the relation to be insignificant. Other studies, such as the investigation of Treviño & Youngblood (1990), report that individuals with higher levels of moral development are more likely to identify and report unethical behavior.

Jones' (1991) issue-contingent model of ethical decision-making in organizations builds upon Rest's model and includes other social cognition research. Jones argues that the characteristics of the ethical issue, the moral intensity, increase the social-cognitive encoding process. This is according to him in line with social-cognitive theory, as he argues, which states that decision-makers easier perceive and encode information that is vivid, salient, accessible and emotionally interesting (as claimed by e.g. Fiske & Taylor, 1991). Consequently Jones theorized that the recognition of moral problems is not only influenced by the individuals level of cognitive development but also by the multi-dimensional construct "moral intensity", which incorporates the amount of "moral imperative" attached to an issue or situation (Jones, 1991). Moral intensity is conceptualized as a characteristic of the issue, and not of the moral agent confronting the issue. According to Jones, moral issue recognition has two main elements: First, a person recognizes that a decision or action has consequences for other human beings or constructs; and second, the person has some choice and volition to deal with

the issue. Jones (1991) identified six dimensions of moral intensity: 1) magnitude of consequences 2) concentration of effect 3) probability of effect 4) temporal immediacy 5) social consensus and 6) proximity.

Since Jones' issue contingent research the recognition of ethical issues has been engrained in the moral intensity construct, as Jordan (2009) recently noted. In line with Jones approach, Rhode (2006) summarizes exemplarily that moral awareness reflects both personal and situational factors, where one perceives the moral intensity of the issue at stake. Intensity, in turn, is affected by both a social consensus on the ethical status of the acts in question and the social proximity of their consequences, as he further asserts. For example, magnitude of consequences of the issue concerns the amount of harm (or benefit) that could be caused by a particular decision or action. In addition to consequences, moral intensity is in his view concerned with the social consensus, or "the degree of social agreement that a proposed act is evil (or good)" and with proximity, "the feeling of nearness" that the moral agent has for victims. According to this understanding, when issues arise in the context of work, it is mainly the degree of perceived consensus (e.g. of coworkers and the problem environment) in these settings that has a great influence on moral awareness. Also Jones (1991) explicitly suggested that the "feeling of nearness" (social, cultural, psychological, or physical) that the decision maker has for victims or beneficiaries of the act in question affects moral intensity. Individuals' capacity for empathy and their sense of human or group solidarity was therefore considered important and understood to positively affect moral awareness, which encourages altruistic action and receptiveness to principles of justice, equality and fairness. Conversely, peoples' capacity to distance, devalue or dehumanize victims leads to moral disengagement and denial of moral responsibility, as Rhode (2006) argues. Rhode (2006) sees these moral capabilities (i.e. part of the moral competence) to be strongly influenced by childhood socialization, religious and political commitments, direct exposure to injustice, and educational approaches that build awareness of others' needs.

Butterfield, Treviño & Weaver (2000) go somewhat "beyond" issue characteristics by suggesting that other contextual factors influence moral awareness. They hypothesize that moral awareness is influenced by both issue-related factors (such as the magnitude of consequences) as well as social context-related factors (as e.g. the perceived social consensus that an issue is ethically problematic). Their scenario-based study finds that both the existence of a competitive framework as well as the use of moral language can influence moral

awareness (the latter by triggering a moral issue schema), along with the earlier mentioned issue characteristics (such as magnitude of consequences and social consensus).

To summarize, Rest's understanding of moral awareness is somewhat different from how other scholars conceive of this component, despite the fact that they mostly build on his theory. Some scholars define moral awareness solely as a recognition-based ability of the individual, conceptualizing the construct as the ability to detect moral issues within a broader, amoral context. However, as elaborated by the above mentioned moral intensity concept and as asserted by Sparks and Hunt (1998), even if moral issues are recognized and elicit an affective-response, if an individual places little or no importance on them, it is "doubtful that they will be factored into the decision-making process".

Taking this critique into consideration, other definitions of moral awareness emphasized awareness as both the recognition that a decision-making situation has ethical content and, in addition, sensitivity as interpretation and ascription of importance to ethical issue (Sparks & Hunt, 1998). This highlights an agreement on two different but related aspects that influence moral awareness. First - as highlighted correctly by Jordan (2009) - theoretically, if one does not recognize a moral issue, he or she will be unable to factor the issue into the judgment process, leading to a poor prognosis for the likelihood of later moral action. Secondly, if the moral intensity of a stimulus is high, the stimulus is more vivid and salient and therefore attracts the individual's attention. Agreement on this view led the conception of moral awareness which is still often referred to: Moral awareness as consisting of two elements; "moral sensitivity" referring to an individual's capability to identify relevant moral aspects in a morally ambiguous situation; and "moral intensity" to the salience of moral aspects in a given context, which influences the ability to ascribe importance to these issues.

The above mentioned distinction has led to the more recent definition of moral awareness of Butterfield, Treviño and Weaver (2000) defined as "a person's recognition that his or her potential decision or action could affect the interests, welfare, or expectations of the self or others in a fashion that may conflict with one or more ethical standards".

Reynolds (2006) however argues that despite this definition being more precise than earlier ones, it is overstated on several accounts. First, he claims that "the need for a decision often is not apparent until after the issue has been identified as a moral issue". Consequently, he argues that the requirement that the individual has first to identify the magnitude of the

consequences of his decisions "limits the number of issues that could possibly be recognized as moral issues". Secondly, the comparison if a personal decision is in conflict with certain ethical standards "requires an analysis of how the decision compares against standards of moral behavior". This process "threatens to confound the constructs of moral awareness and moral judgment", as he correctly asserts, since what is needed for being aware of a moral issues is "merely an acknowledgment that such comparisons are appropriate". Reynolds (2006) refers to Baier (1958) claiming that decision makers must barely acknowledge that "a moral point of view is a valid point of view". He thereby illustrates a point which also in this thesis is found to be central: moral awareness in the traditional conception also involves a moral judgment in itself and cannot be as strictly divided into components as claimed by Rest. Including this elementary claim into his definition, Reynolds writes that moral awareness shall be understood as "a person's determination that a situation contains moral content and legitimately can be considered from a moral point of view".

Apart from the presented theoretical conceptual contributions, there are also some empirical contributions to the notion of moral awareness, despite the fact that this has been largely neglected in research. Most research on moral awareness is, as the theoretical approaches, grounded in the moral intensity construct and has generated a certain amount of knowledge about the characteristics of moral issues that are believed to facilitate moral awareness. A majority of the empirical studies mentioned in a review by Loe, Ferrell & Mansfield, (2000) utilize student samples (nine) and the corresponding findings - which are very diverse - are mostly based upon the goals of the studies. Several evaluate the role of codes of conduct in generating awareness of ethical problems. Others consider individuals' awareness of their own ethical behavior relative to others'. The main findings of the empirical research of ethical decision-making in business suggest that (1) individuals perceive their own behavior to be more ethical than that of others, (2) "ethical orientation" influences moral awareness, (3) awareness of codes of conduct does not necessarily have a significant impact on ethical decision-making or behavior and (4) individuals with higher levels of cognitive moral development are more likely to identify unethical behavior (Loe, Ferrell & Mansfield, 2000).

1.1.2. Moral reasoning and judgment, motivation and behavior

Rest argues that once an individual becomes aware of an ethical issue, ethical reasoning and judgment processes are triggered (Rest, 1986). Much research of ethical decision-making is devoted to this second component of moral reasoning and judgment. However, as Treviño,

Weaver & Reynolds recently noted, the interface or link between moral reasoning and judgment and moral awareness has rarely been investigated (Treviño, Weaver, & Reynolds, 2006). Moral reasoning and judgment is "traditionally" considered a separate component from moral awareness and understood to be the judgment of what potential identified action line is most moral or just after being aware of an ethical problem. In this light, the following definition presented by Velasquez (2002) is to be viewed as representative of the "traditional" conception of moral reasoning as a "separated" component.

Rules and principles for moral reasoning and judgment are the major focus of normative approaches to ethical decision-making, which will be discussed later in this chapter. Descriptively, as asserted by business ethicist Velazquez, moral reasoning can be viewed to involve two components: (1) an understanding of what "reasonable" moral standards require, prohibit, value, or condemn; and (2) evidence or information that shows that a particular person, policy, institution, or behavior has the kinds of features that these moral standards require, prohibit, value or condemn (Velasquez, 2002).
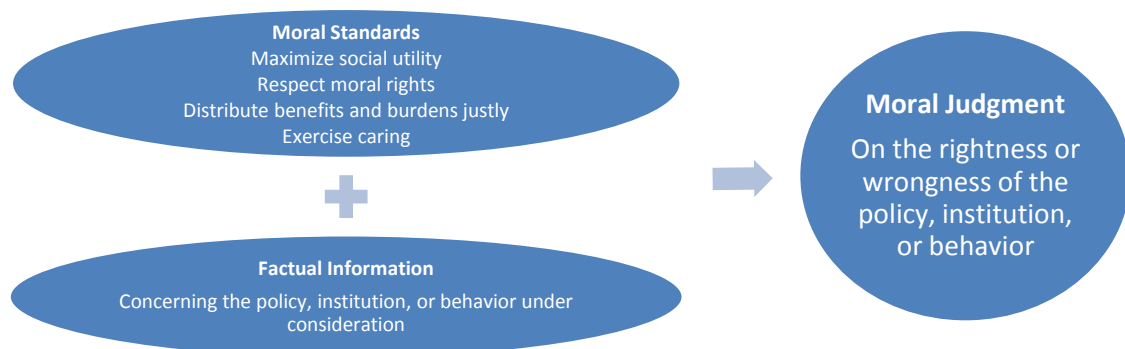
Figure 2: *Moral reasoning process as according to Velasquez (own graph)*

According to this understanding of moral reasoning, after an individual becomes aware of an ethical issue, he is expected to justify and clarify his moral standards and values through a conscious, reasoned debate and argument. Velasquez (2002) asserts that moral standards are not established by authority and their validity does e.g. not rest on voting procedures. Instead, he claims that the validity of moral standards rests on the "adequacy of the reasons" used to justify them. This indicates that e.g. a legal framework cannot be considered as an omnipotent "normative yardstick" to judge on ethical problems. The question what constitutes "adequate reasons" has led to an ongoing discussion within the field of moral philosophy and beyond.

Important for this thesis is that the traditional understanding of moral reasoning, based on Kohlberg's and Rest's cognitive moral developmental approach, established the rationalist position that moral judgment is reached based on conscious, language-based processes of moral reasoning and moral reflection (Seiler, Fischer & Ooi, 2010). Kohlberg distinguishes different developmental stages of moral reasoning with which he describes the level of cognitive complexity an individual applies when making moral judgments. As these stages include the main normative approaches to ethical decision-making, the following paragraph 1.2. discusses the most influential of these normative approaches to ethical decision-making based on Kohlberg's stages of moral development. Finally, it shall be discussed shortly how these main philosophical approaches have been applied to business ethics in practice, and what the implications of these conceptions of CSR and organizational development constitute.

Moral motivation and behavior

Moral motivation has been described as a person's "degree of commitment (once the need for action is identified) to taking the moral course of action, valuing moral values over other values, and taking personal responsibility for moral outcomes" (Rest, Narvaez, Bebeau & Thoma, 1999). This final component before moral behavior is hence understood to describe the courage and initiative to act upon this commitment.

1.2. Moral standards/ main normative approaches to ethics

What Velasquez referred to as "adequate moral standards" has been discussed in business ethics and moral philosophy for centuries, if not millennia. This section reviews those normative theories of ethical behavior found to be most relevant for moral reasoning (in the understanding of Rest and Kohlberg) shortly. Three major approaches in normative ethical decision-making are commonly distinguished in the philosophical literature: consequences-based (teleological), character-based (deontological) and virtue-ethics.

All these approaches to normative ethics find their philosophical justification in a specific worldview and anthropology, as Painter-Morland (2008) asserts. Consequentialist approaches do not focus on the character of the problem solver, or on the moral worth of acts "within" the ethical problem, but instead focus on the potential. Acts are hence judged as right or wrong based on their possible consequences (Robbins & Wallace, 2006). Consequentialist or teleological theory is probably most knowingly represented by the utilitarian writings of John Stuart Mill and Jeremy Bentham. This theory seeks the greatest good for the greatest number

of people barely focusing on consequences (Kline, 2005). Utilitarianism is a general term for any view that holds that actions and policies should be evaluated on the basis of the benefits and costs they will impose on society. Utilitarians hold that the best way to evaluate the ethical propriety of a business decision - or any other decision - is by relying on utilitarian cost/benefit analysis. Following this logic, acts are ethical only if they (follow institutions which) maximize happiness for the whole "sentient creation" (Falkenberg, 2004). In many respects, utilitarianism is indeed considered as an attractive ontological belief. For one thing, it matches fairly nicely the views that we tend to advocate when discussing the choice of government policies and public goods. Most people agree, for example, that when the government is trying to determine on which public projects it should spend "a finite amount" tax money, the proper course of action would be to implement those projects that objective studies show will provide the greatest benefits for the members of society at the least costs. However, this belief has been challenged on several grounds. Whether the consequentialist view of the invisible hand argument justifies unrestrained profit-maximization does for example not depend on what the government should do, but only on what it does in fact do. Furthermore, according to consequentialism, it does not matter morally that people do not intend the good consequences of their actions, but first the outcome. Another major set of problems attached to the theory of utilitarianism is centered on the difficulties encountered when trying to measure utility and comparing utility across individuals. Further, utilitarianism by itself seems to deal inadequately with situations that involve "rights and justice", although some have tried to remedy this deficiency by restricting utilitarianism to the evaluation of rules (Velasquez, 2002). Concerns that the utilitarian outcomes could prove to be "unfair" to individuals and minorities spurred the interest in deontological or character-based theory, drawing heavily on the writing of Immanuel Kant, who focused on what a person "deserves" and an action's motivation rather than its outcome (Kline, 2005). In effect, deontological ethics advise to strictly follow laws, duties and rules. They do not give any weight to the consequences of the actions taken but judge the morality of an action based on the adherence to laws, rules and principles. Deontologists, who are also moral absolutists, believe that the morality of a particular course of action cannot be determined at all by its anticipated consequences. The main theorist in this school of thought, Kant, suggested that deontological ethics could be condensed to one single rule, what he termed the categorical imperative - an unconditional moral obligation that is binding in all circumstances and is not dependent on a person's inclination or purpose. Deontological ethics prescribe the ethical solution to be the

one that contains acts that have "intrinsic moral worth". Hence, certain acts are, at their very core, considered as "right" or "wrong". The probably most obvious "foundation for a global moral consensus" of duties or rules is the idea of individual human rights (Hendry, 2004). The concept of human rights attempts to set out global deontological standards that place priority value on the individual rather than on groups or institutions. In theory, these basic individual rights cannot be ethically overridden by teleological claims that outcomes in particular cases would yield better results, even for a majority of people (Kline, 2005). This theoretical belief to ethics assumes that there are basic moral rules, which are universally applicable because they are necessary for a society to function or for a business transaction to take place. The theory of human rights ethics has been extended in the sense that an act is considered ethical only if it "follows institutions which are in compliance with basic human rights" (Falkenberg, 2004). One of the major challenges concerning this approach is the difficulty to specify universally binding obligations as there are differences in moral standards between cultures as well as diverging views within cultures. Formulating a list of rights beginning from a blank slate often asks which rights would individuals consider basic or fundamental, a type of ethical minimum condition inherent as a right for every human person, if such rights were chosen without knowing in advance where in the world each individual would reside, and under what conditions (Kline, 2005)? This had led to Rawls' "justice as fairness" approach that suggests that in order to guarantee that society is organized in a way that is fair to all, the formulation of its organizing principles should take place behind a hypothetical "veil of ignorance". This veil of ignorance is a test to determine which principles are termed "just" or "fair" by individuals who do not know their position in society. However, as Painter-Morland (2008) rightly asserts, this approach also has major limitations. One problem with establishing principles for fair business institutions from behind a veil of ignorance is that they are likely to be too general and vague to account for all the "context- and relationship-specific variables that continually inform dynamic stakeholder relationships". Hence, there are also severe problems with employing only the Kantian ontological belief in business ethics. These also have to do with Kant's postulation of a rational, independent moral agent, capable of distancing himself from personal prejudices and contextual biases for the sake of objective moral deliberation. Moral agency, as Painter-Morland (2008) correctly claims, is "a far subtler and more complex affair than Kant's idea of an enlightened rational agent suggests". This topic will be caught upon when reconsidering the theoretical base of the moral cognitive development theory.

The third main normative ethical problem-solving technique that "stands out" is the virtue ethics perspective (Stanford Encyclopedia of Philosophy, 2007). Virtue ethics is a broad term for theories that emphasize the role of character of a moral agent as the driving force for ethical behaviour rather than duties and rules, or consequences of particular actions. Most virtue ethics theories take their inspiration from ancient Greek moral tradition, particularly to Plato and to Aristotle[8] (Stanford Encyclopedia of Philosophy, 2007). One likely reason why virtue ethics is considered as one of the most important contemporary normative ethical theories is because it emphasizes the central role played by motives or desires in moral decision-making. Therefore, most virtue-based ethical approaches to behaviour focus on helping people to develop good character traits, such as - for example - kindness and generosity. However, there are also certain challenges with applying virtue-based ethical systems to all moral questions. Most virtue theorists would for example argue that virtuous persons act in virtuous ways as the result of rational thought due to ideal character traits. As this paper will argue, humans are bounded in several ways, and they can e.g. be "blinded" by cognitive biases and thereby be driven by "unethical" desires. Moreover, virtue ethics proponents claim that moral motives and intention is not dependent on "situational" factors but only on the agent's character, a claim with which this paper fundamentally disagrees.

1.2.1. Different stages of moral development

The central thoughts of the presented normative theories can be found in Kohlberg's different stages of moral development. As stated previously, Kohlberg defined moral reasoning as consisting of a series of six developmental stages that describe the level of cognitive complexity one applies when making moral judgments (Kohlberg, 1969). Kohlberg presented participants with dilemmas in which moral and non-moral claims were present on both sides, and he then looked to see how people resolved the conflicts (Haidt, 2001). By letting individuals judge on a number of different pre-defined ethical dilemmas, his research clearly concentrates on the reasons given why certain actions were perceived as morally just or preferred. The reasons given were considered the indicators of the stages of moral maturity. His approach to ethical decision-making is emblematic of these ideas about moral development. Kohlberg's research led him to conclude that individual's moral sensibilities

---

[8] Key concepts being arête (excellence or virtue) phronesis (practical or moral wisdom) and eudaimonia (usually translated as happiness or flourishing)

develop progressively, through stages, as the individual learns to think about moral issues, first in a "pre-conventional", then in a "conventional " and finally in a "post-conventional" way (Painter-Morland, 2008). According to his theory, individuals move through stages in an invariant, irreversible sequence, because higher stages depend upon cognitive capacity that is unavailable at lower stages. Hence, higher stages are "more advanced" as the individual includes a wider and fuller perspective and better ways of justifying its decisions (Velasquez, 2002). Since Kohlberg believed that moral reasoning involves conscious, language-based thinking, individuals could be explicitly ranked on the basis of the extent to which their judgment on the pre-defined cases was considered as "advanced".

Kohlberg (1981) argues that, initially, the individual has a very self-centered view of morality but with time, experience, and exposure to new perspectives, the individual can adopt different approaches to moral matters that are more sensitive to the needs and rights of others and are ultimately based on universal law. Kohlberg's research finds that most adults are at the conventional level, meaning that their thinking about what is right is largely influenced by significant others as well as rules and laws. According to Kohlberg, a disturbingly high percentage (about 80 percent) of the adult population never gets beyond the conventional stages. Painter-Morland (2008) claims that this is largely due to the specific philosophical demands of stages five and six, which require embracing leading elements, first, of social contractarian and utilitarian ethical theories (stage five) and finally, of the moral philosophy of Kant (stage six).

Kohlberg distinguished the following six stages of moral cognitive development:

- Pre-conventional (stage one and two)

  For Kohlberg, the morality in infancy is based on the authority of parents; obedience is in one's immediate interest (Shionoya, 2005). At the two lowest stages (pre-conventional level), the self-centered egocentric, yet outward-looking individual reasons about what is right based upon either concern for obedience to a powerful authority and fear of punishment (Stage one) or mutual exchange in relationships (e.g., one hand washes the other) (Stage two).

- Conventional (stage three and four)

  During this stage, the morality of association is based on mutual interpersonal expectations, maintaining trust, loyalty, respect and gratitude (Shionoya, 2005). Kohlberg

finds moral judgment to be more externally oriented at the middle two stages, and classifies the stages as judgment relying on the expectations of significant others, such as social groups (Stage three) or rules or laws of the nation or society (Stage four).

- Post-conventional (stage five and six)

  Here, the morality of principle depends on an understanding of the universal principles of justice irrespective of one's own interest or others' expectations (Shionoya, 2005). At these highest stages, the individual autonomously determines what is right by adhering to universally held principles of justice and rights. Hence, for those who reach the post conventional level and take a reflective and critical look at the moral standards they have been raised to hold (Velasquez, 2002).

What Haidt (2001) referred to as the "Cognitive Revolution" has coined research on ethical decision-making for a long time. Therefore, before shedding a more critical light on Kohlberg's and Rest's theory, it shall exemplarily be discussed why their theory was and is still often considered useful. Firstly, their theories help to understand how our moral capacities develop and they reveal how we can become increasingly sophisticated and critical in our use and understanding of the moral standards we hold. Furthermore, Kohlberg and others have also argued that, although people generally progress the stages in the same sequence, not everyone progresses through all the stages. Kohlberg finds that many people remain stuck at one of the early stages throughout their lives, which was used to explain for individual differences in ethical decision-making and behavior. Lastly, cognitive moral development theory has proved to be applicable to the study of cross-cultural business ethics, as types of moral reasoning were found to be universal (with similar age and education trends found across cultures) (Treviño, Weaver & Reynolds, 2006).

1.3. Moral development of organizations - CSR and the business context

Kohlberg's stages of moral development have often been linked to business ethics and especially phases of organizational development and stakeholder orientation. Clarkson (1995) and Carroll (1991) give examples of how the individuals' configurations described above can be related to the different styles of responsiveness towards stakeholders of organizations. In this context, four different kinds of stakeholder orientation are generally distinguished: the reactive (neutral), defensive (pragmatic), engaged (accommodation), proactive (idealistic) configuration. Whereas the pre- and conventional stages of moral development are linked to

reactive or defensive strategies towards CSR and stakeholders, recognizes the first post-conventional stage an interconnectedness of all stakeholders, who are both marked and non-marked based, in a social contract (as e.g. suggested by Donaldson & Dunfee, 1999). The second post-conventionalism is linked to the "idealistic" configuration and is considered as the highest stage of development, on which ethical principles guide ethical reasoning, irrespective of market imperatives, which means that corporations consider themselves responsible to all stakeholders and "above the letter of law".

More generally, debates on stages of moral organizational development often begin with two contrasting views regarding the scope of business obligations. One perspective - typically associated with Milton Friedman - claims near-exclusive primacy for the fiduciary obligations owed to a firm's owners (shareholders for publicly traded companies). Friedman theorem is well known in today's business environment: increase profits as long as it stays within the rules of the game. It is argued that when "morality" intrudes into the business organization, it has the potential to divert business leaders from the organization's primary objectives and, as a result, causing it to be inefficient and to deprive stockholders of their returns. Managers who pursue broader social goals - say, by adopting more stringent emission standards than required by law or by donating corporate funds to charitable organizations - are, according to this ethic, "spending other people's money". Firms run by such managers have higher costs than those run by managers whose goal is to maximize shareholder wealth. According to the standard theory of competitive markets, the latter firm will attract more capital and eventually drive the former firms out of business. Frynas (2005) asserts that given the scenario that a "business case" still mainly drives CSR, it is not surprising that many corporate social initiatives do not go beyond narrowly philanthropic gestures. Obviously, Friedman's theorem diverts severely from the understanding of ethics and CSR presented at the background chapter of this paper, and his view of "buy low/ sell high" mentality or pure shareholder capitalism has been criticized frequently.

One of the critics, Edward Freeman, poses the question whether the corporation is to be understood solely as a means to the creation of wealth for shareholders, or if it can be understood as a social contract among shareholders, suppliers, employees, and communities? And if it is to be understood differently, which obligation does a company have to the communities in which it operates (Freeman, 1984)? He emphasizes that stakeholder relationships - hence a more "proactive" organizational development - are the key to

understanding the functioning of business in today's world. Identifying and analyzing stakeholders is a way to acknowledge the existence of multiple constituencies of a corporation. The more the different stakeholders participate in the decisions that affect them, the greater the likelihood that they will be committed to the future of the corporate enterprise, and thereby contribute to long term sustainable success (Freeman, 1984). This (on the first glance) differing viewpoint asserts broader corporate responsibilities to stakeholders (incorporating groups such as employees, consumers, suppliers and local communities, along with the shareholders). Opposite to the shareholder perspective (Friedman's theory combined with the homo oeconomicus), which focuses on a firm's founding financial contract and expected return on investment, the stakeholder approach is often considered to use social contract notions to extend responsibilities to groups that significantly affect, or are affected by, the corporation's activities[9](Kline, 2005). It must be noted that despite the fact that the

---

[9] The classical Friedman-Freeman dilemma indicates that acting "ethical" is often understood as not putting self-interest or profit maximization before "legitimate" interests. It is a main line of attack whether CSR is feasible in a competitive economy. The relationship between CSR and corporate financial performance has been vastly discussed and studied empirically in existing literature. Initially, many argued that CSR requires a sacrifice of profits, a commitment that is not possible to fulfill when competition is intense. However, in recent times, the renewed interest in ethics leads one to believe that the business community no longer sees business ethics necessarily as an oxymoron. In fact, as Painter-Morland argues, an "investment in business ethics" has become a prerequisite for an organization's continued participation in formal business networks (Painter-Morland, 2008). One important contributor to the question "if it pays to be ethical" is Robert Frank. He shows that although at first glance, it would appear that the answer must be no, for if defecting were indeed a dominant strategy, then socially responsible firms (or firms that cooperate) would always have lower returns than pure "profit maximizers". Frank presents five possible avenues along which the socially responsible firm might compensate for that disadvantage of higher costs, assuming that these occur when a business confronts an ethical dilemma and "takes the high road". In his influential study mechanisms, Frank (2004) showed that a socially responsible firm might compensate for the higher direct costs of its actions. This allows the socially responsible firm to be better able to solve commitment problems than its opportunistic rivals. These problems arise between owners, managers, and employees, with customers, and with other firms. As Frank (2004) argues, socially responsible businesses are able to attract and retain higher quality employees, suppliers and investors, which can lead to a stronger financial performance. Also, buyers are often willing to pay more for the products of socially responsible firms. Hence, it can also "pay to be ethical". However, this is though not always the case. Ethics -in the "classical" sense of applied rules and regulation - generally does not solve business problems. On the contrary, following ethical consideration usually imposes restraints on corporate activities and normally increases costs. More importantly, a consumer goods company, which resists corrupt demands associated

stakeholder perspective offers some elementary insights into business obligations, this view cannot be viewed as omnipotent. As a concretization of the diversity of the interests that a company manages, and for pointing out that stockowners are only one group among the many contributors to a company's resources, this model is valuable, as Nyeng (2007) correctly asserts. However, in the light of viewing ethics as the source of all business activity, related to the concept of social responsibility and as a basis for overall analysis of power and value - as Nyeng claims –"it fails to be complete".

Based on the different ethical perspectives and views on organizational development and CSR presented, contract theories emerged in the field of business ethics, often also associated with the former work of Hobbes and Rousseau. Contract theories claim that a contract, usually considered to be implied or hypothetical, is made between citizens for the organization of the society and as a basis for legal and political power within a society (Crowther & Rayman-Bacchus, 2004). Donaldson and Dunfee (1999) posit that a problem with existing approaches to business ethics is their inability to deal with "the nature of the business world and the specific challenges that it poses to decision-making" (Donaldson & Dunfee, 1999). They argue that in the business world, corporations and individuals deal with "bounded rationality". The concept of "bounded rationality" draws attention to the fact that human cognition is always framed by physical and psychological variables. Because of this, systematic errors are common in the way individuals think. Decisions are often made unconsciously, on the basis of insufficient information and under significant time constraints. This critique will be devoted a deeper discussion in the 2nd part of this paper. Of importance until now is the introduction of the thought that the business world is institutionally "thick". Business organizations must be considered as human creations, designed for the pursuit of particular

---

with overseas investment, only because it is afraid of losing its strong international brand recognition cannot be considered to be acting truly "ethical". If the company is only afraid of the loss of brand value, doing business like this is nothing more than "business as usual" on a cost-benefit analysis. Ethics should not be seen as a value adding tool for increasing profits, but as the foundation of all business activity. If CSR approaches can be turned into profits is - from an ethical perspective - the wrong question and can be regarded as "vulgar reductionism" (Nyeng, 2007).

Hence although Frank and other authors on this topic discuss positive effects of ethical behavior, it should not matter from an ethical perspective if CSR influences corporate financial performance, vice versa, or if the two variables can be considered as mutually reinforcing. Increased profit can only be considered a positive "side-effect" of corporate action with a "truly genuine" ethical motivation (Collins, 2009).

goals. For this reason, Donaldson & Dunfee argue that the formulation of normative guidelines for business requires an "unique" approach. Their contractarian model is born out of an analysis of a variety of the earlier-mentioned ethical approaches. In their analysis, the two authors looked at the attempts of business ethicists such as Freeman to utilize Kantian and Rawlsian thinking in business ethics. They also studied rights-based approaches informed by deontological theories and theories of social justice. Lastly, they examined attempts made to utilize utilitarian thinking in business ethics. To this end, Dunfee & Donaldson introduce an approach which they nominated "Integrative Social Contract Theory" (ISCT). This theory combines a variety of different philosophical approaches in a contractarian model, in which the normative standards that guide stakeholder management are context-specific. The model combines procedural guidelines with substantive, normative content. According to the ISCT, normative content is provided by so called "hyper norms", which have to be validated at various levels of consent. Donaldson & Dunfee insist that ISCT does allow contextual contingencies and individual biases to come into play in the formulation of micro-contracts at the individual and community level. The ISCT also recognizes the existence of a "moral free space", which allows an individual or community to self-define significant aspects of their moral commitments (Painter-Morland, 2008).

1.4. Moral reasoning in practice

"Business ethics is not about "Just say no" "Just say yes", clear-cut alternatives on pre-defined cases. It includes discovering, anticipating, encountering and constructing of moral problems, some of which are bona fide dilemmas, and the creation of workable solutions"(Freeman, 1984).

This is neither the time nor the place to go into details as to what these differing theories of ethics are. Suffice it to say that they have been developed by some of the best minds that the world has ever seen. Now it is not the case that these so-called "brilliant minds" were entirely right, but rather it is through an engagement with their thoughts that we clarify our own values (Mitroff, 2004).

As the discussion of the normative theories of moral reasoning as well as the discussion of the existing conceptions of CSR and profit making showed, there is no simple algorithm or

formula to follow in making ethical judgments in practice. All the different schools of moral philosophy and business ethics have difficulties defending their positions in practice. Therefore, "ethical" moral reasoning in practice is commonly viewed to necessarily contain different theories, as each approach of moral evaluation employs distinct concepts and emphasizes different aspects of morality that are neglected or not emphasized by the others. It is therefore broadly claimed that practical ethical decision-making should focus on bringing the different moral standards together in order to understand how they relate to each other. Conscious moral reasoning in practice must incorporate different moral considerations, although only one or the other may turn out to be relevant or decisive in a particular situation. It is therefore necessary to systematically inquire into the utility, rights, and justice involved in a given moral judgment by asking a series of questions about the intended action (also referred to as "checklist approach").

This perspective of "good" moral reasoning in practice allows even diverging interpretations of what constitutes "moral" action to be justifiable, and there is not necessarily one once-and-for-all action imperative as well as course of action that can be considered "best" or most moral. That is, there are some moral problems for which utilitarian considerations might rather be found decisive by some people, whereas for other problems the decisive considerations are the rights of individuals or the justice of the distributions involved, and for others the most significant issue is how those close to us should be cared for[10].

Since ethics in practice can be viewed as being concerned with including a multitude of moral reasoning and reflection into decision, it is often claimed that it is possible to distinguish individuals to the extent to which (and how) they are able to include broader reasoning and reflection into their decisions, despite the fact that no optional decision and clear-cut answer to the ethical problem can be defined. This thesis argues that this might only be true to a certain extent. As Robbins & Wallace note, this understanding of moral reasoning in practice where the different moral standards can be used as practical moral reasoning heuristics focuses mainly on the conscious ethical problem-solving process (Robbins & Wallace, 2006). This paper on the other hand argues that important processes in ethical decision-making happen outside the level of awareness, hence unconsciously, as well as that the psychological setup of the human being is bound in several ways leading to cognitive biases, which complicate the assessment of the individual's ethical competence.

[10]The decisive criteria could of course also be a combination of these main "moral" considerations

1.5. Critical assessment of the moral cognitive development approach

The moral cognitive development theory of Rest and Kohlberg has been subjected to several criticisms, some of which were already mentioned earlier. The main critique from business ethicists is related to the employment of the theory in a business context, Rest's and Kohlberg's measurement tools and the strict stage procession of moral development. However, most critique "stayed within" the theoretical base of the cognitive moral development approach seeing ethical problems as objective entities and individuals as being able to follow rational thought to different degrees. This section shortly summarizes some of these more "traditional" critiques.

One major line of criticism is related to the reach of the possible employment of the theory, stating that Kohlberg's and Rest's theories are only limitedly applicable to business (ethics). In this line of critique, it is argued that their measurement tools[11] were not constructed for the business population and that it is therefore reasonable to suggest that people confront, perceive and judge on moral dilemmas differently in the business context than in other contexts. Marnburg (2001) asserts that if moral cognitive development is indeed "dependent on contexts", as often claimed in the business domain, the measurements carried out in business ethics research do not produce the same results as in other contexts. Hence, as Treviño, Weaver & Reynolds (2006) summarize, moral judgment of business practitioners related to non-business oriented cases does not necessarily give an indication of how business practitioners "reflect and act within a business context".

Psychologists and business ethicists have moreover criticized Kohlberg's rigid stage progression and the reliance on verbal self-reports as a primary data source. This criticism of the strict stage progression has also been linked to Rest's claim of a strict causal relationship of the decision-making process. It originates from Kohlberg's statement that an individuals' moral development is invariant, i.e. that development only moves in an upward direction through the stages (except under psychological regression) and never downwards. As clear distinctions and direct causal relations among the cognitive and behavioral stages are posited that may be untenable, insofar as e.g. cognition and judgment are not fully separable, Rest's four-component model has potential problems.

Further criticism of the cognitive moral development theory regards the normative judgment involved when creating the measurement test cases. In order to compare individual's moral

---

[11] Such as Rest's paper and pencil survey instrument, the Defining Issues Test (DIT) or the revised version (DIT2)

reasoning capabilities, the test answer has to deem some judgments as the most advanced and thereby as the "right", "just" or "fair" judgment to a given scenario. Evidently, as earlier discussed, this is problematic. Ferrell, Fraedrich & Ferrell (2008) rightly points out that a serious constructional issue of the cognitive moral development approach is the choice of ethical "values" in moral development theory.

Rarely discussed in existing literature is that Kohlberg's and Rest's did not "test" moral awareness as an important component of ethical decision-making at all, as their findings rely on the judgments of individuals on pre-defined scenarios. Kohlberg and Rest assumed that individuals with high moral development skills were also able to identify ethical problems, a claim from with which this paper fundamentally disagrees. The fact that models which are based on the cognitive moral development theory "anticipate" the problem identification by providing individuals with pre-defined cases for their consideration sheds new light on the deficit of this approach to answer the questions raised by Blum (1991). As pointed out earlier, Blum claims that some individuals score very high on judging the "right" answer to the problem at hand, but don't judge (or act) in this way in real life since they might not sense an ethical problem in the first place. This not only fundamentally challenges models that built on Kohlberg and Rests' theorem, it also allows to question e.g. if moral awareness and competence can be measured in such manner or at all in beforehand, since due to the ever-changing domain of business new problems are continuously "produced" (as e.g. "new" stakeholders emerge).

The fact that moral awareness as an important part of ethical decision-making was not explicitly tested by the measurement tools used by Kohlberg's and Rest's approach, it can indeed have severe implications not only on the Kohlberg's and Rest's understandings of ethical decision-making, but also on other models which build on their findings. In fact, a huge amount of ethical decision-making literature is occupied with the individual and its level of moral reasoning, which has led to an overemphasis on applying the right normative concepts and principles for moral reflection and behavior, rather than correctly identifying (and formulating) the moral problem in the past. Most business ethicists relied in their research on a linear model of moral development and see the moral development of the individual as the fundamental explanatory variable for (un)ethical behavior (Painter-Morland, 2008). Exemplarily for this kind of argumentation are critical comments on management

practice as so by e.g. Falkenberg who states that "a number of multinational enterprises have come under ethical scrutiny over the recent decades" due to "lack of maturity of corporate moral reasoning" and thus concludes that pre-conventional and conventional moral development is "insufficient as a basis for ethical guidance".

The following second part will elaborate on this common understanding of "lack of moral maturity". As it was described in this chapter, the presented perspective requires conscious reasoning in a principled manner, where moral reality exists and is recognized by individuals to different degrees. This will prove to be fundamentally opposed to the findings of this paper that individuals may have sophisticated moral reasoning skills, but, if it is inconsistent with the judgments prescribed, will be poorly scored. As this argumentation highlights, a strong need to reconsider the theoretical base of the cognitive development theory is identified. Reynolds & Ceranic (2009) correctly argue that the depth and the breadth with which Kohlberg covered the phenomenon provided a foundation upon which others could build. However whether they were pursuing or criticizing their theory, other scholars used the cognitive moral development theory as the central stake upon which to "pitch their research tent". This means that although many business ethicists found constructional issues or objections in regards of the employment of the theory and the normative judgment involved, their critique mostly remained within the theoretical base of the field. But while Kohlberg's theory created a remarkable surge in ethics research, it also entrenched the field into his cognitive approach. Unfortunately, the approach has major limitations, which will prove to be relevant not only for the understanding of moral awareness but the entire decision-making process. The first is its' emphasis on the role of rational thought to the point of excluding other decision-making processes such as intuition and emotions. Second, it fails to adequately account for the role of contextual factors (Reynolds & Ceranic, 2009). Lastly, Kohlberg's and Rest's theoretical base doesn't account for the fact that judgments and thought is often motivated to avoid conflicts of interests and to protect the individual's ethicality. The following chapter will be dedicated to understanding the limitations in more detail by building a critique towards "sound" moral awareness and judgments.

Summary & Limitations

In the first part of the paper, existing theoretical approaches of ethical decision‑making models were presented and critically discussed. Until very recently, the state of the field was one where responsibility for unethical behavior in the business domain was mainly attributed to the lack of personal reasoning skills of individuals which follow rational thought only partly considering situational and contextual variables (e.g. Jones, 1991; Treviño, 1986), rather than to the other intuitive emotive and cognitive mechanisms that operate when individuals face ethical situations. Hence it was concluded that without (enough) moral awareness (i.e. cognitive moral development), some decisions will more likely be evaluated as a straight-forward financial decision. Most approaches have in common that they claim that individuals can make "sound" ethical judgments (hence judge in objective impartial terms) independent of their context, as the cognitive moral development theory assumes morality to be a relatively stable character attribute, which individuals possess or not, "settled in a particular stage of moral development". However, as Tenbrunsel & Smith-Crowe (2008) highlight and already mentioned in the introduction, the empirical study of ethics that has surged in the past two decades provides "clear evidence that ethical thinking and behavior is prone to many of the same mental processes and pitfalls, some outside of consciousness, as the rest of human thinking and behavior". Individuals across the board perceive themselves e.g. as much more moral than their peers. Due to the clear empirical evidence which contradicts the main (implicit) claims of the cognitive moral development theory, the following chapter will address the second research question in depth, discussing what potential barriers to sound ethical judgment are and built on that discussion, elaborate if existing descriptive approaches of ethical decision‑making sufficiently describe the ethical decision‑making process.

2. Part two: Barriers to "sound" ethical decision-making

> *The concept of boundedness leads us to the important distinction between descriptive and normative views of human behavior. A normative view of behavior is grounded in the assumption that the operation of the human mind is not constrained. A descriptive view of behavior is grounded in the assumption that mental processes are constrained in ways that make normative operations impossible (Chugh, Banaji & Bazerman, 2005).*

As argued in part one, when seeking to elucidate ethical failures, explanations rooted in the cognitive moral development theory focus mainly on the level of cognitive moral development of the individual. This is in line with the idea that most business scandals are the responsibility of "bad apples". As DeCremer (2009) asserts, this assumption is intuitively compelling and attractive to use because it is a simple and straightforward solution, which, at the practical level, facilitates the identification and punishment of those deemed responsible. However, as already mentioned in the introductory part, several empirical findings indicate that individuals can be "blind" to ethical problems despite being aware of advanced normative theories (e.g. as demonstrated by their ability to consciously consult a broad range of different moral consideration/perspectives in moral reasoning), which according to Kohlberg should indicate a high level of personal moral cognitive development. Moreover, numerous studies find that individuals across the "defined different levels of cognitive development" perceive themselves as more moral than their peers. As these findings cannot be explained by models which are rooted in cognitive moral development theory, this paper proposes that all people can behave unethically given the right "circumstances" due to certain constraints of the human mind and cognitive biases of human thought. In order to support this argument, this chapter critically questions some of the main assumptions of the cognitive moral development theory. This thesis contributes to a new stream of research arguing that much (unethical) decision-making occurs outside the individuals' awareness. This is in contrast to the common assumption of deliberate "cheating" in traditional normative principal agent models (De Cremer, van Dick, Tenbrunsel, Pillutla & Murnighan, 2011). Moreover, arguments are presented that support a new line of provoking research (with authors such as Ayal & Gino, 2011; Gino, Ayal & Ariely, 2009; Gino, Norton & Ariely, 2010), which suggests that while people are sometimes not "aware" of an ethical problem at hand, in other situations they are

able to knowingly behave unethically (cheat with full awareness), explicitly violating their own ethical standards while maintaining a positive view of themselves and their ethicality.

In order to support the above-presented perspectives, this paper applies a positive/descriptive approach aiming to examine how individuals actually make decisions and how they "react" and "interact" with a situation where an ethical problem dimension resides. As the positive approach applied focuses on actual behavior of individuals, this paper draws largely from work in (cognitive) psychology, which is considered "the scientific study of human behavior and thought processes" (Quinn, 1995).

So far, the path from moral awareness to moral behavior has been conceptualized as a decision-making process. According to Robbins, Wallace & Puka (2003), in psychology, decision-making is generally only considered to be a stage within a broader problem-solving process of the individual. Kilmann (1979) highlights the centrality of problem-solving to business practice, decision-making and the managerial role in general: "One might even define the essence of management as problem-defining and problem-solving, whether the problems are well-structured, ill-structured, technical, human or even environmental. Managers of organizations would then be viewed as problem managers, regardless of the types of products and services they help their organizations provide". Following this line of thought, and in order to better understand ethical decision-making from a descriptive viewpoint, this paper elaborates profoundly on the perspective of seeing ethical decision-making as part of a broader problem-solving process of the individual. The focus of this part of the paper will then lie on barriers that inhibit "sound" ethical problem-solving. It begins by looking at how individuals become aware of and construe (ethical) problems.

2.1. On (ethical) problems

Rest defined the "recognition" of ethical problems as an interpretive process. He understood ethical behavior as the culmination of a multi-stage process initiated by this recognition, with a set sequence of steps and causal relationships within this process. In order to not build on the theoretical base of the cognitive moral development theory, this chapter investigates how individuals formulate and conceive of ethical problems "from scratch". First, the "nature" of an ethical problem from a cognitive psychological perspective is discussed. Following this, Pedersen's (2009) approach on the content of the process how individuals become aware of and conceive of ethical problems is presented.

48

2.1.1. Nature of an ethical problem

In the field of cognitive psychology, the definition of a problem often refers to and relies on a statement by Duncker. Duncker (1945) referred to the situation when "a living organism has a goal but does not know how this goal is to be reached" as a problem. According to the definition, a problem consists of three components: a starting state, a goal state and a set of possible actions to move from the starting to the goal state (Green & Gilhooly, 2005). Until today, many psychologists find this definition helpful. It follows that, what constitutes a problem for one individual may not necessarily constitute a problem for another, as for example the other person might know how to reach the desired goal state, or might "sense" or "interpret" the start state or construe or see the goal state differently.

Building on the distinction of different dimensions of problems by Mitroff (1998), Pedersen (2009) suggests that ethical problems are typically part of a broader problem set consisting of n-dimensions[12], as for example ethical, financial and interpersonal. This is in line with statements of scholars such as MacDonald (2002), who argue that, e.g. due to the rather technical nature of a problem, "managers fail to conceive the moral dimension of a problem". Hence, an ethical problem can be understood as being one dimension of a broader problem context.

In abstract terms, ethics is considered the "branch of philosophy dealing with values related to human conduct, with respect to the rightness and wrongness of certain actions and to the goodness and badness of the motives and results of such actions" (Random House Inc, 1987). In other words, ethics generally defines what appropriate actions "constitute for an individual or a group in a moral dilemma" or problem set. As discussed in part one of this paper, ethical considerations can be based on the choices "right" versus "wrong" action (i.e., means), "good" versus "bad" results, or "virtuous" versus "vicious" character. Combining the two perspectives of ethics and problems leads to an understanding of ethical problems as one of the dimensions of a broader problem set, in which ethical values are at stake and a "judgment" on a moral issue is necessary. This is in line with Mitroff's understanding of ethics as "being fundamentally about justifying one's values in the light of the arguments that various theories of ethics address to our values" (Mitroff, 2004).

---

[12]Mitroff's (1998) problem dimensions were "Technical-scientific", "Social-interpersonal", "Existential-spiritual" and "Systemic"

Problem-solving

There are some theoretical contributions to ethical problem-solving in the field of psychology which claim that not only the cognitive moral development is relevant to predict an individual's problem-solving processes, but also other factors. These theories will be reviewed here before developing and discussing a perspective building on a newer stream of research.

Describing ethical problem-solving, Robin & Wallace (2006) assert that there are, despite the dominance of the cognitive moral development theory, other important theories for understanding ethical decision-making, such as the "taxonomy of ethical ideologies", as well as "theories of personal values". As extensively discussed in the first part of this paper, moral cognitive development theory postulates that individuals can move sequentially through six stages of development, beginning with a person following rules in order to avoid punishment and ending with a stage where individuals act in accordance with self-chosen principles. Painter-Morland (2008) asserts that the research tradition employed in moral reasoning and cognitive moral development approaches has focused on "moral justice". Criticizing Rest's and Kohlberg's theory, Gilligan (1993) indicates that, within the theory of cognitive moral development, a bias exists in favor of individuals that generally hold a more justice-oriented view (especially at the highest stages). Building on these same lines of critic, Robbins & Wallace (2006) conclude that, while people may not only be on a "particular developmental level" when solving ethical problems, they also use particular "ethical perspectives" (i.e. ideologies), which can be considered "lenses" through which ethical problems are seen. These ethical ideologies, according to the two authors, vary between individuals and describe their "location" with respect to different "dimensions" such as relativistic/universalistic and idealistic/pragmatic[13] orientation. Moreover, Robin & Wallace (2006) point out that in order to fully understand and simulate a particular person's ethical problem-solving process, one needs to know more than his or her ethical ideology and his or her moral development level - one also needs to understand what he or she "values". This is in line with other literature

---

[13] Davis and colleagues find idealism and relativism to account for differences in ethical judgments in business practices and reports that "differences in relativism and idealism influence the individual's emphasis on various moral criteria when making ethical judgments. For example, individuals high in idealism display a predilection for invoking rules about justice and fairness" (Davis, Anderson & Curtis, 2001 in Robin & Wallace, 2006).

within cognitive psychology, according to which personal values often "underlie ethical decisions" (see e.g. Ayton, 2005). The concept of values is especially important when building on the view of moral awareness presented in the first part of this paper as both the "interpretation of" and ascription of importance to (i.e. value-based judgment) ethical problem features. Rokeach (1973) claims that to have values can be understood as having a relatively "enduring prescriptive or proscriptive belief that a particular mode of behavior or end-state of existence is preferred to an opposite mode of behavior or end state". He also asserts that values can be regarded as serving different functions, such as adjustive, ego-defensive and self-actualizing. The different functions will be discussed in more detail at a later stage in this chapter. This short introduction into the concept of values indicates that they must be considered as a social psychological concept with broad implications for ethical decision-making (i.e. for management and business ethics). DeCremer (2009) claims that, as a concept, values have both a cognitive and an emotive/ intuitive foundation, which provide the basis for "formulating long term goals, for reflecting on individual and organizational identity and responsibility, and for measuring and communicating corporate success using an increased repertoire of measure and indicators". The presented arguments indicate that values influence our expectations "to create and recreate our social reality" (Nyeng, 2007) while providing us with the vocabulary and tools for developing new perspectives on e.g. identity, responsibility, but also leadership and success. Since ethics should be about creating and recreating our social reality, as argued in the background page of this paper, values are indeed of high importance for better understanding ethical problem-solving and decision-making. This then leads to the question where ethical values of the individual "come from".

Ethical values are often considered to be the result of a (relatively long) socialization process. This is in contrast to attitudes, which are seen as more dependent on particular situations and experiences (Morsing & Pruzan, 2006). Haidt (2008) contributes to a different understanding of ethical values by suggesting five "foundations of morality", which he believes are "written on the first draft of the mind"[14]. He argues that these five different moral intuitions are diverse systems in the moral mind. Based on this view, Haidt describes (for example) liberals and conservatives as differently "programmed" with regards to these intuitions. This allows the perspective that, even if acknowledging that there might be similar "response mechanism" of

---

[14]Haidt suggests these five foundations of morality to be harm/care, fairness/reciprocity, in-group/loyalty, authority/respect, purity/sanctity

individuals across the world (a claim which could be discussed), the "programming" of morality (i.e. the human "values") can differ across individuals. This perspective adds an important dimension to the understanding of values as well as of the nature of ethical problems. According to this view, ethical problems can be viewed as both defined by psychological moral "response mechanisms" (or an individuals' psychological response to the moral features of a situation at hand), as well as the "programming" which incorporates categorically similar thinking into the earlier "lenses" perspective of Robin & Wallace and other theories of moral values.

The implications of the line of argument presented above are of high importance for the perspective on ethical decision-making and problem-solving presented in this paper. Arguing that individuals use different "lenses", are differently "programmed" or possess different values leads to the conclusion that ethical problems are, at least partially, "constructed" and individually "perceived" by individuals. This is different from a perspective, which sees moral reality as something which can be defined in objective terms. The presented view is in line with Pedersen (2009), who, when discussing the ontological status of ethical problems, offers a "remedy" in terms of viewing ethical problems "as qualitatively personal, and thus to some extent subjective, but that the actual moral features of ethical problems are not subjectively construed and that we differ in our ascription of moral significance to these due to individual differences in psychological characteristics".

The perception of moral problems cannot only change between distinct cultures, among different groups within one culture and individuals, but also over time. In other words, this conception of ethical problems implies that there is no "universal" moral content of a problem. Rather, ethical problems are better understood as being partially "designed" by moral agents and hence be seen as a fluid concept.

The implications of this view on ethical problem-solving and decision-making are manifold. "Response mechanisms" which define the individual's psychological response to the moral features of a situation as well as the value-laden ascription of importance to these psychological reactions not only strongly influence the process of the individuals constructing of (ethical) problems, but also the subsequent problem-solving. This highlights once again the central importance of the first stage of problem-solving, which has been referred to as moral awareness. In this context, Haidt (2008) presents a provocative view of the moral awareness,

which allows for a more detailed discussion in the next chapter. He claims that our minds are "not merely designed to unite us in teams or divide us against other teams, but also to "blind us from the truth"" – he argues that our psychological setup is "bounded" and creates a certain awareness bias. This is why he considers it of utmost importance to understand our moral psychology in order to comprehend why "everybody thinks he is right".

Another important implication of seeing ethical problems as partially constructed by individuals is that, as values (similarly to the concept of "programming") cannot be considered deterministic, ethical problem-solving can be "learned" and trained. This is of major importance for the role of education. The fact that moral "lenses" and "values" (which influence the ascription of importance to moral features of a situation) can be "developed" differently can generate socially powerful, as well as "problematic" tendencies, as Hendry (2004) claims. He, by way of example, states that large businesses e.g. dictate their "values and terms" to those developing countries in which they operate, and that they control the agendas of major international agencies. According to him, they successfully "impress their own values upon the world at large" and thereby also influence the way individuals construe ethical problems. He further argues that, through expensive public relations expenditures, through the media and through involvement in educational programs, businesses are able to communicate the value that for example business itself, as a social institution, is important and to be trusted[15], that businesses are "responsible and caring", and that any curtailment of their power would damage the prosperity of society. This can influence the ethical "lens" of society as a whole as Hendry (2004) argues.

2.2. How individuals construe (ethical) problems

The position developed in the previous paragraphs has important implications for the understanding of the entire ethical problem-solving and decision-making process. One of the main assumptions of the cognitive moral development theory highlighted in part one was that moral awareness is an interpretative process, where the individual "recognizes" moral reality to different extents. However, the current chapter outlined that the interpretation of ethical problem features cannot be considered as universally "true" and that, instead, it must be considered as socially constructed. As this contradicts one of the main underlying

---

[15] This seems to work as the debt ratings of the large TNCs are higher than those of many smaller countries, and they also own a large proportion of the world's physical, financial and intellectual assets.

assumptions of cognitive moral development theory, are consideration of the understanding of how individuals become aware of and construe ethical problems, and therewith the theoretical base of the cognitive moral development theory, is necessary.

2.2.1. Emphasis on rational thought

According to the theoretical base of the cognitive moral development theory, when individuals do not "recognize" moral problems and subsequently display behavior that violates "accepted" moral standards, this is due to "bad apples" which are believed to have underdeveloped moral awareness (i.e. cognitive development). As Butterfield, Treviño & Weaver (2000) write, an individual at a certain development stage in a morally laden situation should realize - to different degrees- "that his or her potential decision or action could affect the interests, welfare, or expectations of the self or others in a fashion that may conflict with one or more ethical standards". An important assumption of this perspective is that underlying is the idea that moral awareness is a rational process. According to literature supporting this view, people interpret moral problems in a conscious manner in which cognitive corrections can be applied (Sparks & Hunt, 1998). However, this view is problematic in different ways. As elaborated earlier, moral awareness must be understood as incorporating a judgment in itself and can therefore not be considered as a pure "technical" process.

Blum (1991) offers a major critique of rational thought approaches in ethical decision-making by differentiating between two stages of moral awareness. A central point Blum raises is that perception of ethical problems - as the very initial phase of moral awareness - involves moral capacities not encompassed by moral judgment (which is a part of moral awareness). In other words, he argues that certain aspects of moral perception cannot be identified with the same capabilities as a moral judgment, but precede a moral judgment. Blum argues for the notion of perception claiming that knowing how to apply a principle and to pick the best among the possible actions, involves a moral capacity beyond "commitment of adherence to, or recognition of the validity of, the principles itself". This view contradicts the cognitive moral development view as talking of an awareness of a situation existing "at different levels". Blum highlights that the notion of salience (or thinking about degrees in which ethical reality can be interpreted) preserves the idea of reasoning in a principal manner; as by contrast that of "perceiving situations under different descriptions" - as used to express the way the same situation can be seen differently by different perceivers - does not (Blum, 1991). Blum illustrates this with the example that when a person is confronted with a specific situation,

he/she has to be aware of the fact that promise-keeping and harm are morally relevant features, while taking a walk or eating cereals normally are not. Build on this argument, he concludes that it must be moral perception which "constructs the problem" when an agent is faced with a (moral)problem in the first place, while the moral judgment bridges general rule in a particular situation depending on the prior "individuating" of the situation (Blum 1991). Hence existing conceptions of moral awareness must be considered as exaggerated regarding the fact that they do not include the process of "individuating" which precedes and defines latter processes. Here, Blum highlights a central point: In order to understand moral decision-making (as well as to improve moral competence), we cannot easily say that individuals become aware of moral issues or problems to different extents (or degrees of principled reasoning), but that we need to understand how the individual construes problems. To better understand ethical decision-making, we therefore need to pose the questions Blum asks to all of us: "How do agents come to perceive situations in the way that they do? How does a situation come to have a particular character for a particular moral agent?"

2.2.2. Role of intuition and emotions

> *...the idea that our decisions and judgments are not always colored by conscious reasoning processes is supported by recent research on morality, intuition and affect. This intuitionist framework suggests that moral judgments and interpretations are the consequence of automatic and intuitive affective reactions (De Cremer, van Dick, Tenbrunsel, Pillutla & Murnighan, 2011).*

Many moral philosophers and business ethicists are committed to the idea of a "free", or independent moral agent, who makes his or her decisions based on conscious reasoning in an objective and impartial manner. Since moral imperatives are thought of as being articulated in "objective" terms, according to these philosophers, it is possible to establish their universal validity beyond doubt. As it is believed that "other factors" would introduce an unacceptable form of subjective bias into the process of objective moral deliberation, most of their models take care to exclude from consideration the singular contingencies and dynamics that pertain to particular relationships and situations, as well as emotions and intuitive responses to (ethical) problem features (Painter-Morland, 2008). This was highlighted in the first part of this paper.

According to rationalist approaches, moral judgments are primarily reached by a process of conscious reasoning and reflection on the moral problem and the recognition of an ethical

problem (Kohlberg, 1969; Piaget, 1932). In order to prove this fundamental assumption wrong, Haidt (2001) presented a group of participants with scenarios that included obvious violations of "moral rules" that needed to be judged morally "right" or "wrong". Analyzing the process how individuals become aware of and solve ethical problems made Haidt believe that an individual's judgment in a moral conflict situation is often intuitive and emotional. In other words, he found that moral stimuli are often identified "spontaneously, unconsciously and automatically".

Haidt (2001) concluded that, while his participants were able to decide whether they found the actions of the fictional actors morally right or not, they often could not provide an immediate reasonable, principle-based argument for their decision. Based on this, they concluded that their participants judged the scenarios intuitively without evaluating all available facts. He consequently asked himself if reasoning in these cases was the cause, rather than the consequence of a moral judgment - since people in their cases "undeniably" engaged in conscious moral reasoning. Based on subsequent studies, Haidt (2001) gives several reasons for the hypothesis that conscious moral reasoning does not always cause moral judgments; rather, conscious moral reasoning is often a "post-hoc construction", generated after a judgment has been reached and a problem has been "constructed". Haidt argues that the conscious moral reasoning process is often "more like a lawyer defending a client than a judge or scientist seeking truth" in order to exemplify the problem of "motivated reasoning" inherent in the human nature. He asserts that the reasoning process readily constructs justifications of intuitive judgments, causing an illusion of objectivity (or objective reasoning). He claims therefore that moral behavior many times co-varies more with moral emotions and intuitions than with conscious moral reasoning "outcomes".

After having presented Blum's claim that moral perception involves different moral capabilities rather than moral judgments, Haidt's research strongly doubts the causal connection between awareness and reasoning as proposed by Rest and Kohlberg. Moreover, Haidt questions one of the fundamental assumptions of the cognitive moral development theory as described in approaches by Kohlberg and Rest. He argues that at least two cognitive processes are at work - conscious moral reasoning and automatic reflexive emotive intuitive responses to moral problems, which are "motivated" and biased.

Haidt (2001) posits that moral intuitions precede moral reasoning, arguing that one's overall moral judgment is heavily biased toward the leanings of a rapid and automatic process, rather

than a slower, more thoughtful one. Based on his fundamental critique of existing ethical decision-making models building on the cognitive moral development theory, Haidt developed an alternative model of ethical decision-making, the social intuitionist model (SIM). In this model, he links rational and intuitive processes in a dual-process model following the tradition of dual-process models of persuasion in attitude research (such as e.g. Chaiken, Libermann & Eagly, 1989). He emphasizes that moral judgments are mainly dependent on moral intuitions, claiming that they are caused by quick moral intuitions and are followed (when needed) by slow, ex post facto moral reasoning. However, Haidt does not deny that judgments can be "rationalized" (i.e. overridden) post hoc by conscious reasoning. This may trigger a new intuition that contradicts the initial one (Seiler, Fischer & Ooi, 2010). Hence he suggests a circular, interactional perspective on the process of how individuals construct and solve ethical problems. Haidt finds his views supported by neuro-scientific data which proves that the areas of the brain tooled for cognitive reasoning and those that generate more automatic responses are both activated during moral decision-making (Greene, 2009). In fact, the importance of intuitive and automatic processes has recently been supported strongly by research in the field of social neuro-cognition. It shows that relatively automatic and intuitive affective reactions often play a much bigger role in our judgments than initially thought.

Haidt (2001) defined moral intuition as "the sudden appearance in consciousness of a moral judgment, including an affective valence (good-bad, like-dislike), without any conscious awareness of having gone through steps of searching, weighing evidence, or inferring a conclusion." Reynolds and Ceranic (2009) argue that emotions and intuitions arise from the appraisal of "significant" objects, where emotions provide the individual with a form of judgment indicating how to respond to any given situation. However, despite the widespread acknowledgement that emotions and intuitions affect judgment, there is little research on the role of emotions within the business ethics domain (Reynolds & Ceranic, 2009).

Kahneman (2002) supports the above perspective on at least two cognitive processes/families of thought (intuition and reasoning) at work when solving (ethical) problems. Intuition, he argues, is responsible for both "marvels and illusions". Kahneman writes that the good thing about intuition is its "quite" good accuracy and the long time it takes to form. The bad part is, as he argues, that it cannot only be erroneous, but also that the systematic errors are very "difficult to correct". This claim will be discussed in more detail in the third part of this paper.

It is nowadays commonly accepted terminology in cognitive psychology to hold a two-system view, which distinguishes intuition and reasoning. While the former is described to be rather automatic, effortless, associative, fast yet slow-learning and emotional, the latter is conscious, slow, controlled, effortful, rule-governed, flexible and (emotionally) neutral. The best way to tell if you are in system one or two is, according to Kahneman, to do an "effort diagnostic". It is argued that you are in system 2 if an interruption by a concurrent activity - for example somebody making noise while you are trying to study - proves irritating (McManus, 2004).

Kahneman (2002) argues that the core concept to understand intuitive judgments and preferences is accessibility. Accessibility can be understood as the ease with which particular mental contents come to mind (Higgins, 1996). A defining property of intuition for Kahneman is that they "come to mind spontaneously", like percepts. He argues that in order to really understand our intuitive and emotive thoughts, one must understand why some of them are more easily accessible while others are not. Accordingly he argues that e.g. category labels, descriptive dimensions (attributes, traits) or values of dimensions, all can be described as "more or less accessible for a given individual exposed to a given situation at a particular moment" (Kahneman, 2002). Kahneman further asserts that the concept of accessibility subsumes the notions of stimulus salience, selective attention, and response activation or priming, which will be referred to in the next chapter.

Kahneman goes as far as calling his theory of how the human mind works an "evolutionary speculation". He claims that intuition is an "adaptation of human perceptual systems over time", including seeing, hearing, and "all the modes by which we try to make sense of the world" (Kahneman in McManus, 2004). He claims that contextual and situational variables determine how we interpret the things we perceive, and that our minds often rush toward single interpretations while actively suppressing alternative interpretations. Kahneman considers doubt as a pure product of System 2 as it is a "consideration of the possibility of alternate perceptions". Kahneman also offers the warning that "we're not aware of cases in which our intuition is leading us astray".

The presented 2-System view is also referred to by Brooks (2011). "Emotion assigns value to things", he writes and argues that "reason can only make choices on the basis of those valuations". Of the two levels of the mind, the unconscious and conscious, Brook, as several

other researchers on this topic, argues that the unconscious is of major importance for (ethical) decision-making.

Brooks view moreover illustrates well the problems of terminology which authors who write on this topic typically face. Whereas he describes the contents of the unconscious mind as "emotions, intuitions, biases, longings, genetic predispositions, character traits and social norms, sensations, perceptions, drives and needs", it can be claimed that these processes are partly "conscious," in the usual sense of the word, since they are parts of conscious experience (Nagel, 2011). Hence, the sense in which they are unconscious, which is maybe what Brooks and Haidt were referring to, is that they were outside direct conscious control.

2.2.3. Role of contextual factors

Our analysis of business organizations as complex adaptive systems suggests that the ineffable sense of normative congruence that develops among those who participate in an organizational system over time may be of a far more complex and relational nature (Painter-Morland, 2008).

As argued throughout the paper, the theoretical base of the moral cognitive development theory treats ethical imperatives as if they were immutable truth and as if the validity of them remains unaffected by the particularities of interpersonal and contextual variables. Little consideration is given to the need for an "appropriate" context of particular relationships and situations (Painter-Morland, 2008). Kohlberg's and Rest's theories of moral development thereby insufficiently take into account that - a truism in psychology - personality and situation "interact" to influence awareness and judgments, as do cultural and societal influences. The lack of attention paid to context must clearly be considered another major limitation of the cognitive moral development approach. Despite relevant theories in other closely related fields (such as e.g. Fiske & Taylor, 1991) and explicit attempts to steer research in this direction (as for example Treviño, 1986; Jones, 1991), business ethics research has generally failed to adequately address the social "interaction" between the individual and the environment during the decision-making process (Reynolds & Ceranic, 2009).

Ethical problem-solving does not occur in a vacuum. The well-known Stanford Prison Experiment demonstrates that the power of a situation can play an important role for moral behavior. Monin & Jordan (2009), amongst numerous other researchers, argue that our own

conception of the moral self is not stable and trait-based; but rather "dynamic and influenced by situational factors that fluctuate from moment to moment". The cognitive approach tacitly elevates the individual and his or her cognitions without fully acknowledging the role that the environment plays in shaping awareness and behavior. Current theories building on Kohlberg's and Rest's theoretical base are unable to capture this important feature of ethical decision-making. In order to try to make sense of the content of the process how the individual becomes aware of ethical problems and the role of contextual and situational factors in this process, some theoretical contributions to this topic are reviewed, before a more advanced conception, developed by Pedersen (2009), is presented.

Several scholars (Treviño, 1986; Jones, 1991) have tried to include contextual variables in their models of moral behavior. However, most of them were rooted in the cognitive moral development approach. Jordan (2009) argues that, from a social cognition perspective, "recognition" of moral issues requires one's selective attention to, encoding of, and recalling of "moral-related stimuli". This "awareness as recognition" perspective has a long history in social cognition research. Fiske and Taylor (1991) argue that since all situations present large amounts of stimuli, it is necessary for an individual to attend to some stimuli while ignoring others. Those stimuli that are salient and most likely to be encoded into memory are believed to be the ones that are compatible with the individual's existing "schemas" for a situation. A schema is considered "a cognitive structure [representing] knowledge about a concept or type of stimulus" and is - according to Fiske and Taylor (1991) - developed based on one's goals, motivations, and social experiences related to a given situation. Schemas can be understood as providing "scaffolding" for assimilating information, one that structures memory, aids in recalling, and edits data that is deemed relevant (Anderson et al., 1983 cited in Monin & Jordan, 2009). Because these schemas are thought to be used to interpret stimuli, they are also believed to affect moral awareness and the process of how the individual "recognizes" ethical problems.

Butterfield, Trevino & Weaver (2000) argue that the individual's relevant social sphere is important in determining whether an individual "recognizes" a moral issue. They suggest that the awareness that a particular activity is ethically problematic is more likely to be triggered if an individual perceives a social consensus within the organization/ profession than if not. Thus, Butterfield, Trevino & Weaver (2000) indicate that ethical problem-solving is very

much a social process (while still assuming moral awareness is an interpretive process of moral reality). Consequently to these approaches, it is commonly argued that when business organizations do not involve moral language into their daily routine, "straightforward, non-moral scripts guide much routine decision-making". Hence, since selective attention and recall are thought to be necessary for moral awareness, the use of euphemistic or unemotional language to describe ethical problems is argued to be one example of how one can have muted or underdeveloped "ethical prototypes" or schemes (Gioia, 1992).

Reynolds (2006) approaches the question how individuals construe/ recognize ethical problems from a neuro-cognitive perspective. He refers to neuro-cognitive processes of "reflexive pattern matching" to explain the initial stage of moral perception. He writes that electrochemical signals produced by stimuli from the environment are compared to and matched with existing "prototypes" in the brain, which are dependent on prior experiences with problem-solving. These prototypes then allow the decision-maker to react accordingly. Hence, if the pattern matches a prototype related to an ethical problem, the information is "transmitted to consciousness", allowing the decision-maker to apply conscious ethical reasoning processes. Thus, Reynolds claims, moral awareness is dependent on the existence of such ethical prototypes. Monin & Jordan (2009) theorizes that since prototypes are developed through prior experiences, it can be assumed that the type and magnitude of former experience with and exposure to "ethical problem situations" shapes the presence and nature of existing ethical prototypes.

Moreover, Reynolds (2006) argues that individual differences interact with issue characteristics to shape moral awareness, which is to a certain extent different compared to the presented other approaches. He draws from the social cognitive perspective on attention and concludes that individuals can be more "attentive to information based on their cognitive predispositions". Based on this perspective, Reynolds (2006) suggests that the stages of moral decision-making may not be discrete elements of a formulaic thought process but may actually be interrelated in a very way such that the stages of moral intent, moral judgment, and moral behavior influence moral awareness as well as the other way around. Staying within the research paradigm of moral awareness as recognition, he suggests that the relationship between ethical predispositions and moral awareness is rooted in the aspect of attention. He derives a major implication for theories of moral cognitive development from these findings: Although "somewhat maligned over the years", theories of moral cognitive

development offer a "reasonable basis" for understanding the effects of ethical predispositions on moral awareness (Reynolds, 2006).

As the above summary of existing conceptions of the process how individuals perceive of ethical problems highlights, contextual variables are often believed to influence the "recognition" of ethical problems. Theories of stimuli, schemes, ethical prototypes, attention, and attentiveness have been proposed to explain the process. However, as outlined by Pedersen (2009), "we must understand what triggers an individual's moral sensitivity in a given situation in order to adequately understand that a moral judgment is not only an analytic or epistemological issue, but indeed an ontological one". Most approaches agree that the ethical content of a problem "exists", in the sense that contextual variables influence the process of "recognition" of ethical problems. In contradiction with these views, also this thesis argues that ethical problems are better understood as being partially a social construction of the individual based on the moral features of a problem which evoke an emotive, intuitive, and thereby partly unconscious psychological response which the individuals interprets and uses to "construct" a problem.

In order to describe the process of how the individual conceives of an ethical problem, Pedersen (2009) refers to the notion of "stimulus dependence". He writes that ethical problems can be real even if it is problematic to conceive of them as "objective entities". Lai (1991) argues that" the objectivist conception of problems as representations of objective entities existing independently of the observer implies that individuals recognize problems, whereas the subjectivist conception of problems as mentally projected categories (or labels) of events and situations implies that individuals construe problems" (Lai, 1991 in Pedersen, 2009). Believing that problems can be both objective and subjective, Lai proposes that problems are defined by different degrees of "stimulus dependence", meaning that they stem from the combination of moral stimuli of the situation (as interpreted by the individual) as well as the individuals' response to these stimuli.

Pedersen (2009) writes that the conception of stimulus dependence implies that rather than seeing problems either as objective representations of reality or as subjective constructions of the individual's perceived reality, some problems can be characterized as "more directly dependent on the potentially problematic features of the situation, while on the other hand of the scale, problems are less directly constituted by the actual stimuli, and rather a result of the

individual's psychological processes in perceiving and interpreting the problem, such as framing, creativity and cognitive style" (Pedersen, 2009). This approach is clearly opposed to the cognitive moral development theory, which understands moral awareness solely as the individual's active interpretation of the problem in the situational context. It implies that the individual indeed partially "constructs" the ethical problem through the psychosocial perceiving and interpreting processes. This perspective sees moral blindness as being constructed by the individual himself, as opposed to the common understanding as lack of ethical problem recognition capabilities. The awareness of ethical problems can differ to the degree of which moral features are represented, as the individual is necessarily interpreting the content of ethical problems "into" the situation. Following this argument, the perception of ethical problems may differ to the degree to which they directly reflect moral features of a situation - as opposed to being "read into" situations by individual, as Pedersen (2009) conclusively argues.

Pederson's (2009) perspective on the process how individuals become aware of ethical problems helps to better understand (as well as to see differently) Chugh & Bazerman's (2005) claim that moral awareness of individuals is bounded. The two former authors claim that most predictions offered of how individuals react to external stimuli have shared the implicit assumption that humans are able and actually do perceive the stimuli available to them "accurately". They however, as well as several other authors (such as De Cremer, van Dick, Tenbrunsel, Pillutla & Murnighan) have challenged this tacit assumption and provide evidence that individuals often as well as systematically "fail to see and use stimuli and information easily available to them". This more recent view allows to view individuals as being "bounded aware" to both objective and subjective moral features of problems, which prevents them sometimes from focusing on easily observable and relevant data, or respectively common, simple interpretation processes. This claim in combination with Pederson's (2009) perspective goes somewhat behind the more common view of the phenomenon of moral blindness as situations in which humans do not "see" accessible and perceivable moral information during a problem-solving process, but "see" other equally accessible and perceivable information. Consequently it can be argued that not only "useful information" remains out of focus for the decision-maker, but also that some simple cognitive interpretative processes of the individual are bounded, which lead to bounded awareness of individuals.

2.2.4. Moral disengagement

A central concept that helps to understand how individuals can differ in perceiving of moral content of a situation, as well as the extent to which moral blindness is "produced" by the individual, is the psychological process of moral disengagement. Moral disengagement is a term from social psychology describing the process of convincing the "self" that ethical standards do not apply to oneself in particular contexts, hence disabling the mechanism of "self-condemnation" (Fiske, 2004).

Bandura (1999) proposed the idea that most people are guided by personal standards of ethical behavior, and when these standards are activated, they play a self-regulatory role reflected by guiding good behavior (consistent with the standards) and deterring misconduct (which would violate the standards). He writes that people generally do things that give them "self-satisfaction and a sense of self-worth". They normally refrain from behaving in ways that violate their own moral standards. However, as Bandura (1999) also argues, moral standards only function as fixed internal regulators of conduct when these self-regulatory mechanisms have been activated. And there are many psychological processes to prevent this activation. He proposes that people often disengage these self-regulatory processes through anticipatory "moral disengagement" processes. Moral disengagement processes "free" individuals from self-sanctions and guilt that would normally accompany the violation of one's own moral standards. Bandura clearly conceptualizes moral disengagement as "anticipatory". When morally disengaged, unethical behavior becomes more likely, as moral features of situations are only conceived poorly or not at all. In a way, moral disengagement can thus be seen as protection or "buffer" that allows people to free themselves from feeling guilty and at unease with the idea that they may have violated accepted moral standards. Moral disengagement is particularly successful to reduce feeling of dissonance that would normally occur if an individual has strong moral awareness when harming the interest of others, Shu, Gino & Bazerman (2011) assert. Bandura (1999) proposes different categories of moral disengagement mechanisms, each one of which can manifest itself in multiple ways: 1) cognitive reconstruction of behavior (moral justification, euphemistic labeling, and advantageous comparison); 2) minimizing one's role in the harmful behavior (displacement of responsibility, diffusion of responsibility, and disregarding or distorting of the consequences) and 3) focus on the targets' unfavorable acts (dehumanization and attribution of blame).

2.2.5. Implications

The presented understanding of how individuals perceive of ethical problems fundamentally departs from the traditional measurement process where human beings can be ranked according to their cognitive moral development, i.e. the extent to which they "recognize" moral reality. Rather it is proposed that the "ethicality" of a given problem depends on a combination of the individual's psychological response to moral features of the situation at hand, as well as the individual's interpretation of and interaction with these features.

The position was presented that it is wrong to believe that we mainly think through principles to come up with morality, but rather that these processes are largely influenced by the individuals' emotions and intuitions. It was moreover argued that situational and contextual factors can strongly influence the process when the individual becomes aware of an ethical problem. This view helps to understand De Cremer, van Dick, Tenbrunsel, Pillutla & Murnighan's (2011) position that "some contexts may be sufficiently compelling for almost anyone to engage in unethical behavior", as they argue that the perception of the ethical dimensions of problems heavily depends on the problem environment. Hence, arriving at a more complete understanding of these circumstances must be considered as one essential part to improve business practice.

The presented process of how ethical problems are perceived based on Lai's stimulus dependence construct as proposed by Pedersen (2009) must be placed between perspectives in which the characteristics of the individual are emphasized and critical management perspectives in which situational and institutional constraints are emphasized. Pedersen's "third way" both acknowledges the importance of the individual's moral competence, while also allowing the hypothesis that inadequacies in ethical problem-solving may stem from boundaries of seeing ethical dimensions of problems, and that these may be externally inflicted on the individual in terms of education, societal and organizational regulations or social arrangements (Pedersen, 2009).

Subscribing to this view, the fundamental assumption of the cognitive development approach that an individual can gain a completely objective, rational understanding of what is morally required of him/her is not tenable. This is in line with Painter-Morland's view who argues that it is impossible to think of individuals as isolated, rational agents who are capable of objectively operationalizing rational protocols whenever and wherever it is deemed necessary to arbitrate in matters of ethical significance. The fact that individuals often do not perceive of

the moral dimension of a problem is hence not necessarily due to them being "morally uneducated", but possibly due to psychological processes such as moral disengagement which lead to "ethical fading" (Tenbrunsel & Messick, 2004).

2.3. How individuals solve (ethical) problems

> *The huge submerged bulk of the mental iceberg, with its stores of memory and acquired skills that have become automatic, like language, driving and etiquette, supplies people with the raw materials on which they can exercise their reason and decide what to think and what to do (Nagel, 2011).*

The previous chapter elaborated on the idea that perceiving of moral problems includes itself value judgments, which are traditionally believed to be moral reasoning features. The strict division between moral awareness and moral reasoning of Rest's Four Component model does not support this perspective. Rest's approach must hence be abandoned, as the cognitive processes at work when perceiving of and judging on moral problems are interrelated. Another central thought of the previous chapter is that the individual is bounded in its ability to perceive of ethical problems due to psychological processes such as moral disengagement. The cognitive mechanisms at work when perceiving of ethical problems strongly "influence" (subsequent) problem-solving processes. However, problem-solving processes are not only integrated into as well as dependent on a previous perceiving of ethical problems, but the cognitive processes when trying to identify a solution to an ethical problem at hand are also subjected to the same or similar errors in moral thought (i.e. the psychological processes that bound the individual). This chapter further elaborates on this claim by discussing contributions from the cognitive psychology domain on how individuals commonly solve (ethical) problems. Focus lies on the different cognitive mechanisms that bound the individual.

Scholars within the psychology domain have defined problem-solving in different ways. Generally it is understood to encompass a broad range of activities in which the individual tries to identify a solution to a problem to reach the goal state. Green & Gilhooly (2005) assert

that problem-solving takes place over time, "interleaving" a range of cognitive and emotional processes and drawing upon pieces of knowledge, which are represented in various ways[16].

2.3.1. Problems with "sound" problem-solving

> *Despite this robust evidence about boundedness, humans tend to view their own ethicality as unbounded. In fact, decision-makers are psychologically motivated to maintain a stable view of a self that is moral, competent, and deserving, and thus, immune from ethical challenges. Because individuals view their immunity as more powerful than the situation (moral, competent), and view any gains incurred as appropriate (competent, deserving), this view is a barrier to recognizing and addressing conflicts of interest (Chugh, Bazerman & Banaji, 2005).*

As mentioned earlier, a well-documented empirical fact of ethical decision-making research is that individuals across the board perceive themselves (i.e. their "solution" to the ethical problems) as more "moral" than their peers. This allows the assumption that they not are bounded when they perceive the start state (i.e. the moral problem), but also in identifying "ethical" solutions to construed problems. However, as argued before, a clear division between perceiving of problems and problem-solving is not possible, as the subjective perspective implies that relevant processes are interwoven.

The above empirical finding suggests that in every "ethical situation" psychological/cognitive mechanisms are at work which lead to an illusion of moral rectitude and objectivity of the individual. To better understand this tendency of individuals, problems to "sound" ethical decision-making shall be discussed in more detail. The approach chosen is descriptive, largely drawing upon psychological concepts and theories.

---

[16]Based on Robbins and Wallace (2006) definition of ethical problem-solving and the perspective developed so far, the process of problem-solving can be understood as "the iterative process of "interacting" with one's environment, construing the start state of an ethical problem based upon both what one values morally and the moral features of the situation while potentially engaging in moral disengagement processes, framing and re- framing the problem or sub-problems from various morally value laden perspectives to reach the goal gate, applying knowledge to develop and consider alternatives, choosing an alternative or alternatives, intending to act morally, and then acting towards achieving those alternative(s).

Literature on problem-solving in the field of psychology suggests that when solving a problem, individuals often perceive to "encounter" (i.e. construe) problems that are similar to problems they have encountered (construed) previously, and moreover, they often only think that problems they encounter (construe) are similar to previous ones. In the former case, even if a solution (i.e. how to reach the goal state) to a "thought to be similar but indeed new" problem is unknown, individuals are reminded of a previous solution of a (thought-to-be) similar problem and suggest the previous (or somehow similar) solution to the "new" problem. That is, they are guided to the solution by the use of analogy (Green & Gilhooly, 2005). This indicates two central points. Firstly, it highlights again the elementary role of moral awareness for sound problem-solving- i.e. that the ethical dimension of a problem is perceived of in a rich manner in order to distinguish the construed problems from similar ones. Secondly, it indicates that previous solutions and strategies to problem-solving influence actual problem-solving. Hence, the experience with problem-solving as e.g. experiences during school and university education, affect actual problem-solving strategies.

The use of analogy can on the one hand be considered a positive feature for ethical decision-making. For example, Moran, Bereby-Meyer & Bazerman (2008) found that individuals who were encouraged to see and understand the common principle underlying a set of seemingly unrelated tasks demonstrated an improved ability to discover solutions in a different task that relied on the same underlying principle. Moreover, Thompson, Gentner & Loewenstein (2000) argue that existing learning styles often "distract" us from seeing important underlying, generalizable principles, which is where analogical reasoning appears to offer "hope for overcoming this barrier to decision improvement" (Milkman, Chugh & Bazerman, 2008).

On the other hand, however, it can also provoke problematic practices as it can lead to a conviction of moral rectitude and objectivity independently of the underlying principle and thereby a cognitive bias. A core argument supporting this claim is that humans rely on simplifying strategies or "cognitive heuristics" (i.e. rules of thumbs). While these heuristics in general offer "useful" short cuts, they also lead at times to systematic unethical judgments (Bazerman & Chugh, 2005).

Tversky & Kahneman (1974) point out that while the use of analogy leads to a storage of problem-solving strategies, another phenomenon labeled availability heuristic[17]- the process of e.g. predicting the frequency of an event, or a proportion within a population, based on how easily an example can be brought to mind - leads to a cognitive bias of human problem-solving strategies. Kahneman (2002) argues that the availability heuristic is based on an assessment of accessibility of attributes, in which frequencies or probabilities are judged by "the ease with which instances come to mind". Related heuristics are the "representativeness heuristic" - the tendency of individuals to judge probabilities on the basis of resemblance, as well as the concept of "affect heuristic", referred to as the inclination of human beings to base their decision on their emotional reaction rather than a more conscious cost-benefit calculation of risks and profit. Moreover, the term "attribute substitution" is used to describe the occurrence when human beings make judgments of target attributes that are computationally complex, but automatically intuitively substitutes the attribute with an easier judgment/heuristic attribute. According to this finding, people often make complex judgments by unconsciously substituting for an easier judgment.

Tversky & Kahneman presented several of these heuristic principles in 1974. When being awarded the Nobel Prize in 2002, Kahneman (2002) reiterated in his speech the claim "that people rely on a limited number of heuristic principles which reduce the complex tasks of assessing probabilities and predicting values to simpler judgmental operations". Kahneman (2002) asserts that reliance on e.g. the availability heuristics leads to predictable and systematic cognitive biases (Evatt, 2010). The cognitive biases then help to explain the perception of moral rectitude and objectivity of the self. The concepts of the use of analogy, the cognitive heuristics and attribute substitution are similar in many ways. They all intend to describe psychological processes, which are believed to underlie several cognitive biases as well as perceptual illusions. The terms hence unify a great number of separate explanations of barriers to sound ethical problem-solving.

Although Kahneman & Frederick (2002) admit that their initial discussion of accessibility effects has been rather "restricted" to the differential accessibility of attributes (such as probability and similarity) on which judgment objects vary (Kahneman & Frederick, 2002),

---

[17]Availability, salience and vividness are terms which refer to very similar things in social psychology but have slightly different meanings. They may actually all refer to the same underlying concept, and they positively influence one another, but they are each used consistently in different theoretical contexts.

they suggest that a similar analysis can be applied to the accessibility of particular values of attributes. This is highly relevant for ethical decision-making, as easier accessible values as well as solutions can be "overweighed", and when these values are considered as possible solution to ethical problems they can become "potent anchors" (Epley & Gilovich, 2002).

A common business practice (and business education practice) is the reduction of complex (ethical) problems to simple financial cost-benefit business cases. This practice can (partly) be explained by referring to the above-presented concepts. McCoy (2007) writes that "the socialization process in a new business situation, or even a new client situation, always involves sensitivity to what is going on around us" and "[…] not all the signals will be explicit, and it's easy to misread a situation". This suggests that since not all dimensions of a problem are always equally salient, information overload might increase reliance on learned approaches and the use of analogy, which in our business paradigm suggests a simple cost/benefit analysis. The consequence of this is that ethical problem-solving is reduced to a pure cost-profit calculation. This means that acting on legitimate interest of stakeholders beyond legal requirements is only a viable alternative if money is to be made this way. The tendency of "bounded" ethical problem-solving might even be increased if a lot of financial information is available, as ethical content is competing even more "strongly" for attention with other salient (i.e. how easy features can be brought to mind) dimensions of the problem. Bazerman & Chugh (2005) suggest four similar conditions that correspond to the types of information and tasks that compete for the decision maker's attention, leading to a "focusing failure". According to the two authors, this occurs when (1) another task competing for attention; (2) the primary task is seemingly clearly defined with narrow default assumptions (3) the information provided is "affective" (d) the information is relevant to the self (Bazerman & Chugh, 2005).

The presented concept of the use of analogy when solving (ethical) problems suggests that problem-solving strategies of business practitioners strongly rely on strategies learned at home, business school and workplace. The reduction of ethical problems to one-dimensional economic problems can hence be regarded as the result of a "learning process" and as one reason why managers vote for the "non-ethical" alternative more often than their "personal morality" (conscious normative beliefs) with less "experience and knowledge of cost/benefit-approaches" would suggest. In general terms, as De Cremer, van Dick, Tenbrunsel, Pillutla & Murnighan (2011) correctly assert, people are "limited" or "bounded" in "updating their

beliefs continuously and can thus not always take perfect and accurate decisions". Many of our decisions are biased in the sense that we make use of different kinds of cognitive heuristics and stereotypical beliefs which many times have an intuitive character. This was in a similar vein claimed by Chugh, Banaji & Bazerman (2005) who argue that the impact of psychological biases leads individuals to engage in unethical behavior that does not respond to their own normative beliefs. The claim that our mind is bounded is supported heavily by research outside the domain of ethics, and has even been empirically documented by several cognitive scientists.

The following two examples of typical cognitive processes (priming and framing) indicate how these heuristics can be used for "immoral" marketing and sales (i.e. business) practice, although we might not be aware of it. Nagel for example claims that "if you tell people to write down the first three digits of their phone number and then ask them to guess the date of Genghis Khan's death, they will be more likely to put it in the first millennium, with a three-digit year, than those who are asked without the preliminary" (Nagel, 2011). Hence individuals seem to prime information unconsciously in certain ways which later bounds their conscious reasoning. Moreover, the example of "framing" shows how the way (ethical) information is presented is relevant for problem-solving, as showed by the following claim: "If a surgeon tells his patients that a procedure has a 15 percent failure rate, they are likely to decide against it; if he tells them the procedure has an 85 percent success rate, they tend to choose it" (Nagel, 2011).

Related to the illusion of objectivity through analogical reasoning, Keltner, Langner & Allison (2006) describe how power[18] can affect "sound" problems solving of individuals. They first argue that the acquisition or distribution of power is not random. Instead, as they assert, power normally "tends to be given/to be taken to people who are more likely to act in an impulsive and self-interested fashion". Their main claim is that this acquired power affects moral judgments through a process of disinhibition[19] leading to impulsiveness and, as a consequence, often to the rationalization of the perceived self-interest. They propose that this can even evoke a social consensus - and that this social consensus tends to entrench the "views and values" of those in power. Using a cost-benefit analysis as a moral guide of

---

[18] As the ability to control one's environment or other entities

[19] Experimental psychological research suggests that the powerful people are, the less they take on the perspective of others, implying that the powerful have less empathy (Collins, 2006)

powerful actors can hence have self-fulfilling effects[20]. Ghoshal (2005) claims that by "propagating ideologically inspired amoral theories, business schools have actively freed their students from any sense of moral responsibility". He thereby highlights a major weakness of management theory vs. "hard sciences" that "if a theory assumes that the sun goes round the earth, it does not change what the sun actually does. So if the theory is wrong, the truth is preserved for discovery by someone else. In contrast, a management theory - if it gains sufficient currency - changes the behaviors of managers who start acting in accordance with the theory" (Ghoshal, 2005). This perspective allows to better understand Ulrich's (2002) claim that today's neoclassical economics is the consequence of a progressively and institutionally "unleashed" and normatively "disinhibited" economization of all areas of life, as "bounded" ethical problem-solving can have self-fulfilling effects. Hence, "unethical" (i.e. often self-interested, impulsive) behavior can gain a social legitimization, which is why managers often experience feelings of moral rectitude of their action. This perspective also highlights that all the approaches, strategies and vocabulary individuals (or managers) acquire when learning to deal with problems - which are often supported by formal institutional forces - are of major importance for ethical problem-solving and business ethics.

In the previous chapter it was argued that moral disengagement processes can lead to ethical fading (moral blindness). Related to the discussion of this chapter on the barriers on sound ethical problem-solving, Chugh, Bazerman & Banajis' concept of bounded ethicality makes a similar argument, arguing that individuals are cognitively limited based on earlier research on the notion of bounded rationality (Simon, 1957).

2.3.2. Bounded ethicality

Some of the presented barriers to sound ethical problem-solving can probably be included under the definition of bounded rationality and have recently been conceptualized in the notion of "bounded ethicality". As intensively discussed by Chugh, Bazerman & Banaji (2005), individuals tend to view themselves as moral, competent, and deserving, and this view obstructs their ability to see and "recognize" (construe) conflicts of interest when they occur.

---

[20]Robert Merton defines a self-fulfilling prophecy as a prediction that "is, in the beginning, a false definition of a situation evoking a behavior which makes the originally false conception come true" (Merton (1948) in Ferraro, Pfeffer & Sutton (2005)).

Bounded ethicality refers to the idea that our moral and ethical concerns are colored by self-favoring interpretations. This leads people to display behavior that contradicts their own ethical/moral standards when applying it to others.

Chugh, Bazerman & Banaji (2005) argue that in the bounded ethicality model, self-processes can work unconsciously to protect a particular view and this view "binds" sound ethical decision-making. Ethical decisions are, according to the authors, always biased by a "stubborn" view of oneself as moral and thus, not susceptible to conflicts of interest. This allows individuals to dramatically vary their interpretation of a situation, even when given identical information. Individuals begin to construct problems with their preference for a particular outcome, e.g. motivated by self-interests, and then justify this view on the basis of fairness through a biased perspective on which attributes constitute fairness. Importantly, the "ethical failure" does in this case not lie in the commitment to fairness but in the biased interpretation of information and the biased construction of the problem[21]. The authors mention the example of an individual who puts effort into recycling, but refuses to take public transportation may justify this decision by convincing him - or herself that recycling is the most important way of addressing environmental degradation (Chugh, Bazerman & Banaji, 2005).

The concept of bounded ethicality helps to understand what Hendry (2004) referred to when he argued that while we may condemn "fat cat" CEOs for taking massive salaries and stock options while closing pensions schemes and making workers redundant and while given the chance - as he asserts - "most of us would "gladly" swap places with these managers and take whatever reward we could, without any sense of moral guilt". The described bias exaggerates a conflict of interest as the decision-maker retains an unrealistic confidence in his or her "perception" of data about the situation. This effect of bounded ethicality might be even increased when acting in different cultural, socio-economic contexts, as he asserts.

To conclude, the concept of bounded ethicality claims that individuals are constrained in systematic ways that favor self-serving perceptions and interpretations, which lead to a feeling of moral rectitude (i.e. a cognitive bias) and result in behaviors that (may) contradict our own ethical standards (Banaji, Bazerman & Chugh, 2005). Bounded ethicality can therefore be regarded as the manifestation of Simon's bounded rationality in the domain of ethics.

---

[21]The paper only refers to the interpretation and perception of the data

2.3.3. Cognitive biases

Help comes from the strangest places. We are living in the middle of a revolution in consciousness. Over the past few decades, geneticists, neuroscientists, psychologists, sociologists, economists, and others have made great strides in understanding the inner working of the human mind. Far from being dryly materialistic, their work illuminates the rich underwater world where character is formed and wisdom grows. They are giving us a better grasp of emotions, intuitions, biases, longings, predispositions, character traits, and social bonding, precisely those things about which our culture has least to say. Brain science helps fill the hole left by the atrophy of theology and philosophy (Brooks, 2011).

The previous chapter presented psychological mechanisms which where claimed to result in different forms of cognitive biases. Indeed the presented concepts such as the use of analogy and the different cognitive heuristics such as the availability heuristic are regarded as the main theoretical causes leading to a broad range of cognitive biases.

The term cognitive bias is generally used to describe different kinds of "distortions" in and of the human brain, which are considered as relatively persistent (hence difficult to eliminate), and which result in behavior based on these "errors". It is important to note that the cognitive biases, although mainly unconscious, both are responsible for human perceptual distortions (hence poor or wrong perception of situations/problems), as well as unreasonable interpretations of attributes and problems features (i.e. hence both intuitive and conscious thinking), finally leading to non-sound, faulty, inaccurate (ethical) problem-solving (i.e. judgments) and/or distorted views of reality.

In what follows, a carefully selected list of biases documented in cognitive psychology that also apply to business ethics is presented. The list is the result of an analysis of how common biases can inhibit ethical decision-making in business. However, mostly only the theoretical part of the bias will be presented, and several examples of areas of application are imaginable. In the third part of this paper it will be argued that being aware of (as well as right-mindedly being "exposed" to) common biases is believed to contribute to promoting moral competence, as self-awareness of bias blind spots is a critical component in acknowledging that ethical decision-making is an act of balancing where the claim of moral objectivity and rectitude

needs to be constantly and critically evaluated by the individual. The presented overview is by no means exhaustive, but rather thought to contribute to better understanding some of the fundamental challenges (not only) managers are facing:

- Cognitive psychology refers to the already mentioned "framing effect" as the tendency of human beings to (mostly unconsciously) draw different conclusions from information, depending on how the information is presented. The framing effect allows the idea that manipulating the way how information is presented can influence and alter how problems are constructed and situations are interpreted, and hence also judgments about that information (Bradley, 2010). Related to ethical decision-making in business, this effect also allows to make unethical behavior appear benign, and can thereby be related to the process of moral disengagement (especially advantageous comparison).

- The term focusing effect or focusing failure is used to describe a common human error in thinking - the tendency of too heavily relying on one trait or piece of information, which generally is the piece of information "right in front of us", or the piece with which we are most familiar, or which the one which is easiest for us to access or evaluate (Collier, 2010). A major underlying theoretical concept of this cognitive bias is the availability heuristics. Focusing failure can occur unconsciously (through emotions and intuitions) and even opposed to conscious moral principles or preferences.

- The "primacy effect" refers to the tendency to weigh initial events more than subsequent events. This can narrow our sight same as the "anchoring effect", a term which refers to the tendency to rely too heavily, or "anchor", on a past reference or on one trait or piece of information when making decisions (also called "insufficient adjustment") (Evatt, 2010).

- The "term base-rate bias "is used to describe the tendency of individuals to ignore statistics and focus too much on (random) particularities (Evatt, 2010), while the term "clustering illusion" is referred to as the tendency of human being to see patterns where actually none exist (related to the "use of analogy" concept).

- The ostrich effect is generally referred to when totally ignoring obvious (ethical) problem features. This is somehow similar to the "Semmelweis reflex", which is a term used to describe the reflex-like rejection of new evidence that contradicts entrenched norms (i.e. an established paradigm, such as e.g. the homo oeconomicus view of economic behavior) (Kohavi, 2008). Both concepts when applied to ethical decision-making remind of moral disengagement processes described earlier in this thesis.

- The cognitive bias referred to as "selective perception" is the personal "filtering" of what we see and hear so as to suit our own "needs", hence the tendency for expectations to affect our perception. Much of the related cognitive processes are claimed to be unconscious (Pew Research Center for the People & the Press, 1998). Whereas the term selective perception refers only to the "perception" of a situation, the term confirmation bias refers to a type of selective "attention, interpretation and reasoning" whereby individuals tend to notice and to search for what confirms one's perception/ beliefs/ position, and to ignore/ not look for/ undervalue/ dismiss evidence of what contradicts one's beliefs. Gilovich (1993) hypothesized in this context that the "most likely reason for the excessive influence of confirmatory information is that it is easier to deal with cognitively". The effect is also referred to as "myside bias" used to describe the inclination of people to fail to look for or to ignore evidence against what they already favor.

- Related to the earlier in this thesis mentioned fundamental attribution error, the term "actor-observer bias" is used to describe the tendency for explanations of other individuals' behaviors to overemphasize the influence of their personality and underemphasize the influence of their situation. For the business ethics context also the "deformation professionnelle bias" is relevant, which is a French phrase used to describe the tendency of individuals (i.e. business professionals) to look at things from the point of one's (their) own profession rather than from a "broader" perspective (Bönisch, 2007).

- The halo effect refers to the tendency of individuals (and business professionals) to assume that personality traits "spill over" from one area of life to another. Halo effects occur when positive qualities about a human being in a certain area lead us to assume that he or she is able to perform in other areas of life as well (Evatt, 2010).

- The term "bias blind spot" is used to describe the tendency of people to be unaware of and not compensate for their own cognitive biases. Individuals are often not able to recognize their own biases and idiosyncratic interpretations (nor the effects on their judgments and preferences). Instead, people often assume that others "share" the same preferences and see others as biased if they do not agree. Hence, individuals show a broad and pervasive tendency to see (and even exaggerate) the impact of bias on others' judgments while denying its influence on their own (Evatt, 2010). This bias bears strong similarities with the presented concept of bounded ethicality. Other related concepts are the "illusion of control" and "neglect of probability". The term "illusion of control" is generally used to illustrate an individual's belief that they have "influence over the outcome of

uncontrollable events" when they clearly have not (Montier, 2007). Montier asserts further that the illusion of control (as well as the illusion of knowledge) stems "over-optimism and overconfidence". The cognitive bias effect labeled "neglect of probability" refers to the tendency of people to completely disregard probability when making decisions when an outcome is uncertain (i.e. under uncertainty). Finally, the "better-than-average bias" refers to the human inclination to think we are better-than-average at many things (Evatt, 2010). The term self-serving bias is similarly used to describe the tendency to claim more responsibility for successes than failures. It may also manifest itself as a tendency for people to evaluate ambiguous information in a way beneficial to their interests (see also group-serving bias)

- The term "omission bias" is generally used to describe the tendency to judge harmful actions as worse, or less moral, than equally harmful inactions (Baron & Ritov, 2004). This bias is closely related to the "outcome bias". The former term describes the tendency of individuals to judge a decision by its eventual outcome instead of based on the quality of the decision (intention) at the time it was made. Gino, Moore & Bazerman (2009) described this bias in more detail in their paper "No harm, no foul: The outcome bias in ethical judgments". The authors show that the same behaviors produce more ethical condemnation (judged as more blameworthy) when they happen to produce bad rather than good outcomes, even if the outcomes are determined by chance.

- The "loss aversion effect" refers to the "disutility of giving up an object is greater than the utility associated with acquiring it". This is also known as "sunk cost effect". The principle of loss aversion was first introduced by Kahneman & Tversky (1979), and includes previous thinking such as the "status quo bias" (the tendency for people to like things to stay relatively the same) and the "endowment effect" (the effect of individuals to value a good/ service more once their property right to it has been established) (Montier, 2007). These biases can be theoretically linked to the positive outcome bias, which refers to the inclination of human beings to generally overestimate the probability of good things happening to them (also known as the "wishful thinking effect").

- Another often discussed cognitive bias is the "hindsight bias", also sometimes called the "I-knew-it-all-along" effect. This term describes the inclination of people to see past events as being more predictable than they, in fact, were before they took place. The hindsight bias encourages a view of the world as more predictable than it really is (Shiller, 2010). Psychologists moreover labeled the tendency to incorrectly remembering one's past

attitudes and behavior as resembling present attitudes and behavior as "consistency bias". This former bias makes it "difficult" to admit errors, especially in a business context where performance and track records are very important. It finally can lead to engaging in behavior that elicits results which (consciously and unconsciously) confirm our existing beliefs. Hence we are inclined to engage in behaviors that bring results which confirm our beliefs, which is also known as the "self-fulfilling prophecy" (Evatt, 2010)

- The term "bandwagon effect" is used to describe the tendency of humans to believe and do things because many other people believe or do the same. The likelihood of a bandwagon effect is greatly increased as more and more people adopt an idea or behavior; this has led to the pejorative description "herd effect" in reference to this behavioral phenomenon (Smith, 2011). Similarly, the "group-think bias" refers to the tendency to do (or believe) things because many others do. The term "out-group homogeneity bias" is used to describe the inclination of people to see members of their own group as being relatively more varied than members of other groups. Closely related to this idea, the term "trait ascription bias" refers to the tendency for people to view themselves as relatively variable in terms of personality, behavior and mood while viewing others as much more predictable.

- Finally, the "in-group bias" refers to the practice of individuals to give preferential treatment to others they perceive to be members of their own groups, such as e.g. shown as the recent study by Gino, Ayal & Ariely (2009). Gino, Ayal & Ariely found in their studies that individuals tend to cheat more after they had observed cheating behavior by an in-group member and less when the observed cheating was committed by an out-group member. This and other studies allow the assumption that unethical behavior of in-group members is contagious. It hence seems that when individuals are exposed "in-group unethical behavior", they more often align with the action resulting in unethical behavior committed by themselves, opposed to when an out-group cheats, which doesn't have the same assimilating effect. The authors therefore believed that whether a group member's cheating lead to contagion or restitution depends on the "presence of out-group observers". This approach is somehow opposed (as well as additive) to prior research, which claimed that both individual (such as gender or age) and contextual (codes of ethics and personal incentives) factors mainly influence unethical behavior (summarized by e.g. Loe, Ferrell & Mansfield, 2000; Ford & Richardson, 1994). This new idea suggests that while individual and contextual factors are important to understand the origin of unethical behavior, the

"example set by only one individual (e.g., a colleague or a peer) can also have large consequences" (Gino, Ayal & Ariely, 2009).

- The consequences of this bias are stereotyping (a member of a group is expected to have certain characteristics without having actual information about that member). This bias can also be related to the documented "racism bias", the human inclination to mistreat individuals who act and look different (Evatt, 2010).

The above presented different cognitive biases have in common that they all affect sound problem-solving, as well as many of them underlie common theoretical causes. The main underlying theoretical causes, the use of analogy and heuristics including the availability and affect heuristic, as well as the individuals bounded rationality have already been presented in the previous chapter.

Shu, Gino & Bazerman (2011) interestingly highlight that while "the bounded ethicality[22] perspective emphasizes how unethical behavior results from our lack of awareness", a new line of research (with authors such as Ayal & Gino, 2011; Gino, Ayal & Ariely, 2009) suggests that many of us will explicitly cheat with full awareness, as just discussed. They argue that individuals explicitly violate ethical standards while maintaining a positive view of their own ethicality. Hence, it appears that there two different major mechanisms at work that lead to behavior inconsistent with beliefs, both of which can happen unconscious, one where the individual acts unethical without being aware of it and the other on where is he is fully aware but engages in self-serving interpretations of his act. In this context, Shu, Gino & Bazerman (2011) argue that morality and memory are both "malleable dimensions that reset to align with action". Given the desire of the individual to perceive oneself as moral, when a mismatch between action (i.e. problem-solving strategy) and goal state occurs, people either change the action or change the goal (Shu, Gino & Bazerman, 2011).

These conclusions are confirmed by common management practices, such as when choosing consciously between different solutions to problems. Managers often tend to "justify" unethical behavior by "external" circumstances, and hence turn to "amoral" approaches to problem-solving as the following statement by McCoy (2007) exemplarily illustrates: "I excused my actions by pointing to the high adrenaline flow, a super-ordinate goal, and a once-in-a-lifetime opportunity, all common factors in corporate situations, especially stressful ones

---

[22] This can be related to other biases presented in this paper

[…]". Reference to competitors, or in the words of Bandura "advantageous comparison", is frequently used to excuse non-moral decision-making by arguing "everybody is doing it". Naturally, it easy to respond to this argument because it is simply not true that "everyone is doing it". Many companies refuse to engage in the practice in question, some even at the cost of not operating in the country or region in question at all (De George, 1993). A similar argument is often applied to justify ones' own position of business practices in a competitive environment. Here, the contextual reference is that managers often feel powerless and prefer to mortgage their "ethics" until they are the CEO of a company because they think that only those at the top can effectively take a moral stand. This leads to, often conceptualized in the prisoners dilemma, what economists termed, the "tragedy of the commons" or the fallacy of composition to describe behavior of those who do not believe that their actions, even in the aggregate, can make a difference. Hence the tragedy of the commons allows existing theories to continue to dominate the marketplace, while moral rectitude is perceived by managers and business practitioners.

2.3.4. Summary

"I may consciously choose from a menu, but I do not consciously choose what foods to like" (Nagel, 2011.)

As discussed in this chapter, several significant challenges to developing a rich and more complete body of knowledge regarding moral decision-making are rooted in the theoretical base of the field. The study of moral behavior is deeply entrenched in a cognitive approach and has focused primarily on understanding how individuals process and analyze information (Haidt, 2001). This can undoubtedly be traced to ethical philosophy, which for centuries has given primacy to rational thought of the individual (especially Kant), lately supported by cognitive psychologists Kohlberg and Rest.

A core finding of this paper is that we are not only a product of our conscious thinking, but also of emotive and intuitive processes. While the conscious gives us one way of making sense of morality, the unconscious mind gives us other, more supple ways, which influence the perception of ethical problems and ethical problem-solving. It was suggested that moral judgments are (or at least can be) quick and affect-laden rather than elaborated and reflexive reasoning processes. The presented reviews provide compelling evidence that "hot" affective unconscious responses strongly influence the individuals' decisions and can lead to an ethical failure in the sense that the individual is not able to make a purely "rational" assessments.

Moreover, the individual's moral awareness and problem-solving processes are limited by several cognitive biases. Several barriers to "sound" ethical problem-solving are identified in this paper, which support idea that even "ethical" people can engage in stereotyping, favoring their own group, being affected by conflicts of interest, and "overclaiming" credit (Chugh & Bazerman, 2005).

A major barrier to ethical decision-making is the invisibility of cognitive biases. Biases in an ethical context lead to for example self-serving interpretations. People are usually unaware of the factors that bias or skew their ethical judgments, and they suffer from what can be called the "illusion of objectivity" (Messick, 2006). The cognitive biases further leads to individuals not "sensing" ethical problems when processes of moral disengagement are at work, which impact the individual's tendency to experience less or no conflict in the case of a moral problem situation. When construing and solving ethical problems, individuals automatically frame self-serving interpretations, as asserted by Chugh, Bazerman & Banaji (2005). This tendency might even create a broadly accepted social legitimation if combined with e.g.

power. Keltner, Langner & Allison (2006) argue that people who rise to power are often concerned with self-serving pursuits. Once given power, they argue, individuals are likely to pursue with little constraint their goals, desires, and impulses. And by their very action, powerful individual evoke social environments that become self-fulfilling.

More generally, the psychological influence of processes such as bounded ethicality and moral disengagement impact the individual's tendency to experience less conflict in the case of a moral dilemma (i.e. moral awareness is reduced). Or in other words, these psychological processes clearly support the phenomenon referred to as moral fading. Tenbrunsel & Messick (2004) note, ethical fading is a "process that removes the difficult moral issues from a given situation, hence increasing the likelihood for unethical behavior". The moral implications of one's decision thus fade away because of the underlying dynamics of people's self-serving and self-deceiving perceptions (DeCremer, 2009). Bazerman & Chugh (2005) refer to recent research in social and cognitive psychology, which, according to them, has documented the ability of the human mind to "focus on specific information while failing to incorporate other information that is readily available and relevant". They defined this ability as "bounded awareness", as the individual's failure to "see" and use accessible and perceivable information while "seeing" and using other equally accessible and perceivable information. This concept must be extended by the individuals' boundedness in perceiving of ethical problems, as the individual is limited in its ability to construe ethical problems, which involves the individuals active interpretation of moral problem features based on his "moral competence".

The distinction between intuitive and emotive sentiments and conscious reasoning has indeed been a topic of considerable interest within the cognitive psychology domain in the recent past. Kahneman (2002) asserts that there is agreement on the characteristics that distinguish the two types of cognitive processes, which Stanovich & West (2000) labeled System 1 and System 2. For this thesis, the perceptual operations as well as intuitive and emotive processes that generate impressions of the attributes of the moral features of the situation, the attributes of the situation and context, shall be referred to as System 1, whereas conscious reasoning processes are considered as System 2. Kahneman (2002) asserts that preferences are generally called "intuitive" if they come to mind quickly and effortlessly, like percepts. However, he asserts, intuitive judgments can be "modified or overridden in a more deliberate mode of

operation". Also Gino, Moore & Bazerman (2009) acknowledge based on their studies, a "rational, analytic mindset can override the effects of one's intuitions in ethical judgments".

Greene (2010) summarizes that rationalist philosophers such as Kant or Plato conceived of sound (or "mature") moral reasoning as a "rational enterprise", where abstract reasons in themselves provide direction and motivation. Opposed to these philosophers, "sentimentalists" such as David Hume and Adam Smith argued that emotions are the primary basis for moral judgment. Green argues however in favor of a juxtapose of the two believing that that emotion and reason both play critical roles in moral judgment, and he claims that their respective influences have been widely misunderstood (Greene, 2010). Green proposed a "dual-process" theory of moral judgment arguing that characteristically deontological moral judgments are rather driven by automatic emotional responses, while consequentialist or utilitarian moral judgments according to him are driven by more controlled conscious cognitive processes (Greene, 2009)

Brooks (2011) writes that we are now "children of the French Enlightenment", referring to the paradigm of believing that reason is the highest of the faculties. He claims that the "British Enlightenment", or the "Scottish Enlightenment", with authors such as Hume in some sense better understood who we are and what we humans strive for. Brooks claims that reason is often weak, and that our emotive and intuitive sentiments are not only strong, but describe better what drives us human beings. Moreover, he claims that these sentiments are not only strong, but also trustworthy.

The question based on the presented cognitive barriers which also elicit unconscious psychological reactions is however if they are all good and trustworthy? After having presented amongst others the racism bias, stereotyping effects, moral blind-spots and selective perception and attention biases, hence barriers to which are opposed to our conscious normative views, the answer must clearly be no. The third part of this paper elaborates on the question on what is needed to improve ethical decision-making from a pedagogical point of view. It is argued that in order to align (some of) our judgments and behavior more with our conscious normative views, we have to be aware of (and right-mindedly exposed to) our biases and blind spots in order to override some intuitive judgments. Moreover, it is discussed if it is also possible to change our intuitive judgments (i.e. correct our mainly unconscious cognitive biases) in order to behave more ethical.

3. Part three: How to promote moral competence

The optimal moment to address the question of how to improve human decision-making has arrived. Thanks to fifty years of research by judgment and decision-making scholars, psychologists have developed a detailed picture of the ways in which human judgment is bounded (Milkman, Chugh & Bazerman, 2008).

In the first part of this paper, Rest and Kohlberg's cognitive development theory was presented and it was described how theories building on their theoretical base conceptualized the process of ethical decision-making. Key underlying assumptions of the cognitive moral development theory were identified and discussed in more detail in the second part, concluding that they are not bearable and not only give an insufficient, but wrong picture about how individuals actually make decisions. Especially Kohlberg and Rest's claim of a rational ethical decision maker (to whom cognitive corrections can be applied) and who is independent of its environment was found to not describe the actual ethical problem-solving process. The focus of the second part was the discussion of how individuals become aware of ethical problems and on psychological barriers such as moral disengagement which bound "sound" ethical problem-solving.

Building on the elaborated view of the nature of ethical problems as a social construction of the moral features of a situation and the individual's mostly unconscious interpretation processes, the third part of this thesis discusses major implications of the elaborated perspective on ethical decision-making with a focus on the question how moral competence in business can be promoted with a pedagogical approach.

To recap shortly, the perspective presented in the previous chapter on the process how individuals construe ethical problems building on Lai's stimulus dependence concept (as suggested by Pedersen (2009)) is believed to much better describe the interactional nature of becoming aware of and solving ethical problems. It was argued that both the moral features of the situation as well as the individuals (relevant) psychological factors jointly characterize the conception of an ethical problem. Also, it was argued that it are not only conscious processes leading to the judgments involved during the construction of and reasoning on moral problems, but mainly unconscious intuitive and emotive processes. This position is supported by Brooks (2011) who argues that although we might think that what we believe and do is

largely under our conscious control, non-deliberate emotions and intuitions are much more important in shaping our perception of moral problems, as a big part of the "mental cognitive iceberg" leading to judgments are believed to be based on emotional intuitive processes.

Pedersen (2009) refers to the System 1 vs. System 2 division of cognitive functioning as the "duality of ethical decision-making" and asserts that ethical decision-making involves both "hot" and "cold" responses, i.e. emotional response such as empathy as well as "conscious processing about the requirement for ethical deliberation". Whereas this paper acknowledges that ethical decision-making can be partially impacted by a rational assessment of "right and wrong", it sees unconscious processes as a key variable for ethical decision-making and behavior, which is in line with a growing body of research (e.g. Haidt, 2001; DeCremer, 2009; Reynolds, 2006). Reynolds (2006) asserts that reflexive, automatic, or non-conscious decision-making processes "dramatically" influence the choices that individuals make. He claims that just as an individual can immediately "construe" a dog and "knows" that it pants and barks, it can often instantly "construe" a bribe and "get a feeling about" if this is morally wrong or right based on his/her moral intuitions. This perspective lead to the conclusion that human morality is reflected by a very complex interaction between unconscious intuitive-emotional System 1 and conscious System 2 reasoning processes. Hence, neither a purely intuitionist-emotional nor a purely rationalist model can conceptualize the duality of moral decision-making.

Besides the claim that there are at least two different "types" of processes at work leading to the perception of moral problems, it was argued that the individuals' cognitive processes are often "motivated", for example causing immediate System 1 judgments to construct conscious System 2 post-hoc justifications (unless overridden). Different related psychological concepts such as moral disengagement and other cognitive biases were presented. It was argued that psychological processes such as bounded ethicality work as "barriers" to sound ethical problem-solving, leading the individual yet to experience an illusion of objectivity in his or her judgment. Chugh, Banaji & Bazerman (2005) describe motivated judgments as the sequence of "automatic egocentrism" processes preceding an evaluative moral judgment. It was stated that certain cognitive processes can even lead to behavior being inconsistent with (conscious) ethical beliefs through the reconciliation of immoral actions with ethical goals. The discussed processes also help to explain how even individuals with the same conscious

normative views on ethical behavior can construe an ethical problem differently, depending on their roles, ethical ideologies, values and the environment, as well as how individuals can act against their unconscious view of ethicality.

3.1. Can ethical decision-making be taught?

> *"Conventional approaches towards teaching ethics, borne of philosophical traditions, are [also] unhelpful, constrained by normative views of the ethicality rather than the more descriptive, psychologically based understanding of how the mind works"* *(Chugh, Bazerman & Banaji, 2005)*

Thanks to the descriptive view of ethical problem-solving elaborated in the second part of this paper, we can now much better understand how individuals solve ethical problems and make ethical decisions. Furthermore, as Milkman, Chugh & Bazerman (2008) assert, thanks to the normative models of economic theory (discussed in the first part), we also have a clear vision of how much better ethical decision-making can be. Unfortunately however, we have little understanding of how to help individuals overcome their many cognitive biases and behave more ethically. The focus of this third part is therefore to introduce strategies to promote moral competence given the above summarized view on ethical problem (solving). Especially it shall be discussed how mostly unconscious psychological processes such as moral disengagement can be counteracted and how cognitive biases can be reduced with a pedagogical approach.

There has been a long debate about the question if (business) "ethics" can be learned or not. Documenting scores in principled moral reasoning across graduate programs, Rest (1986) found that students in business ranked lower than did graduate students in political science, law, medicine, and dentistry. In light of this finding, Piper, Gentile & Parks (1993) hypothesized that those attracted to business may be predisposed to take a more "circumscribed view", leading to a higher-than-average motivation towards self-interest and, specifically money-making. Pedersen (2009) asserts that there is a common distinction between "(1) perspectives that build on the learning hypothesis, i.e. that the ethical thinking and behavior of business students changes during, and as a result of, business studies, and (2) perspectives that build on the selection hypothesis, i.e. that the students who self-select into business education are more inclined to specific types of behavior than others (cf. Carter and

Irons, 1991)". Ritter (2006) summarizes that there is a great deal of disagreement, both theoretically and empirically, regarding the trainability of ethics during business university studies. She argues that the available literature suggests the possibility that both options are in some sense correct. That is, for those individuals with an "ingrained ethical background" prior to the "college classroom", the implementation of an ethics curriculum may be quite effective in "supplementing their existing schemas". For those individuals lacking ethical problem-solving experience however, the current level of ethics training provided in business schools may not adequate to make ethical decision-making a "habit" (Ritter, 2006). Ritter's perspective is provocative, as she claims that existing approaches to teaching ethics are only "effective" in training these students who already possess advanced moral competences, hence engage less in moral disengagement and tend to be less biased in their judgment. Also several other authors argue that it is too late to "raise questions of values and corporate purpose" with students who are in their twenties and thirties, that such student's characters are "totally formed and unchangeable" (McCoy, 2007).

This point of view is rejected emphatically in this thesis. Based on the elaborated view of ethical problem-solving, this paper argues that the question if ethics is learnable or not is, in the words of Ghoshal, often discussed on "false premises", hence assuming e.g. the existing learning style as given. It is believed that students have to be seen as being at a "critical stage in the development of their perceptions about capitalism, business practice, leadership and the appropriate resolution of ethical dilemmas" (in line with Piper, Gentile & Parks, 1993). This is in a similar vein argued by Eisenberg, Spinrad & Sadovsky (2006), who claim that although earliest experience have an indelible impact on the individuals problems solving skills (his or her moral competence), "the same is true for one's professional training".

Supporting this general perspective, Pedersen (2009) argues that the trainability of ethics strongly depends on the promoted learning style. He asserts that e.g. the production of moral blindness - similarly to the production of moral sensitivity (i.e. awareness) - can be seen as a learning process, instigated either by the individual himself or the institutional environment around him. He differentiates with reference to the existential learning theory of Kolb between learning by assimilation, where reflection and conceptualization are mainly leading to a refinement of the individual's moral reasoning skills to improve judgment (of those already possessing certain psychological features to construe the ethical problem from a rich perspective), and learning by converging where conceptualization and experimentation are

dominant, which he regards as elementary for the development of moral awareness and competence.

Pedersen (2009) claims that knowledge and competence is best generated in an iterative process, where theory is developed, tested, modified based on those tests, and subjected to more empirical tests. Other of scholars have argued in favor and modeled this process (such as e.g. Reynolds, Schulz & Heckman, 2006). Mitchell, Agle & Wood (1997) for example developed a theory of stakeholder salience arguing that stakeholders garner attention based on their power, legitimacy, and the urgency of their claim. Agle, Mitchell & Sonnenfeld (1999) provided an empirical test of these arguments. This started an iterative process wherein others have been able to develop and test other related ideas.

The following chapter discusses central challenges to pedagogical approaches to promote moral competence including the findings of the previous sections. Specifically, this paper will refer to Stanovich & West's (2000) distinction between System 1 and System 2 cognitive functioning in ethical problems solving, since it is believed that their conception provides a good framework for organizing both what scholars have learned to date about effective strategies for improving decision-making and future efforts to uncover improvement strategies. Focus lies on developing a methodology to correct System 1 errors, opposed to the "traditional" focus on how to improve conscious System 2 reasoning.

3.1.1. Challenges

When faced with a situation, we all believe we're weighing the facts objectively and making rational, thoughtful decisions. In fact, science tells us that in situations requiring careful judgment, every individual is influenced by his or her own biases to some extent (Bazerman & Moore, 2008).

When in a situation that contains an ethical problem dimension, most of us like to think we stand up for our principles. The second part of this thesis gave some examples that indicate that we are not as ethical as we think we are. Bazerman & Tenbrunsel (2011) recently examined the extent to which we overestimate our ability to do "what is right" and how we act unethically without meaning to. Bazerman & Tenbrunsel (2011) argue that all individuals

have an "inflated perception of their own ethicality and think that they are more ethical than those around them". They claim that these ethical illusions (or "blind spots") about ourselves are driven by the "discrepancies between how we think we will behave when faced with an ethical dilemma, how we actually behave, and then how we recollect our behavior". This view refers to several of the barriers to sound ethical problem-solving presented in the previous chapter, as well as the cognitive biases discussed.

Milkman, Chugh & Bazerman (2008) moreover argue that "people often lack important information regarding a decision, fail to notice available information, face time and cost constraints, and maintain a relatively small amount of information in their usable memory". They claim that the busier individuals are, the less time they have to make decisions, and the more they rely on unconscious, intuitive System 1 thinking. According to Milkman, Chugh & Bazerman, it is the "the frantic pace of life" that makes individuals rely on System 1 thinking. This view is supported by Shiv & Fedorikhin (1999), who assert that "willpower is weakened when people are placed under extreme cognitive load", indicating that in a case of information overload, individuals rely much more on System 1 cognitive functioning than conscious, slow thinking. Milkman, Rogers & Bazerman (2007) add that the same happens in situations in which the individuals are inexperienced in a decision domain (which business students often are in the field of ethics).

Generally, people put great trust in their intuitions (Brooks, 2011). However, the findings of the previous chapter (i.e. the presentation of the different "unethical" cognitive biases) have severely challenged this trust. Often, as Moore & Lowenstein (2004) exemplarily point out, our first impulses tend to be rather emotional than logical, indicating that out intuitive judgments can well contradict our conscious moral attitudes and values. Moore & Lowenstein (2004) moreover assert that our intuitive System 1 responses are more likely to be vulnerable to unethical temptations than our more reflective System 2 thoughts, although studies of Gino, Ayal & Ariely (2009) question this claim to some extent as they show that people are also able to act unethical with full conscious awareness. Nonetheless, it is suggested in decision-making improvement literature that – in some situations – getting people to think more before acting, in more reflective and analytical ways, would be a useful way to "nudge our actual selves closer towards the ethical selves we imagine ourselves to be" (Milkman, Chugh& Bazerman, 2008). Milkman, Chugh & Bazerman (2008) correctly point out that one key task to improve ethical decision-making is to identify "how and in what situations people should mistrust their System 1 judgments and try to move from intuitively compelling System 1

thinking to more deliberative System 2 thinking". Another related question is how and if we can design situations that make System 1 thinking work "in the decision-maker's favor" (i.e. in accordance to conscious normative views).

The above proposition was that individuals rely often on highly "accessible impressions produced by System 1" (Kahneman, 2002), which thereby control judgments and preferences, unless modified or overridden by the deliberate operations of System 2. This allows the view that there exist ways in which people are for example racist or sexist (the respective cognitive biases have been mentioned in the second part) without knowing that they have these attitudes. In fact, substantial literature in psychology argues that many people have implicit attitudes that they would not endorse with their conscious awareness but on which they act unconsciously. However, it seems possible to move from System 1 to System 2, as the example of how the racism bias is managed (i.e. institutionalized) in our society shows. We are much better aware of some biases and have institutional legal frameworks to counteract some bias. Kahneman (2002) argues that in order to understand our judgment and choices we must study the determinants of high "accessibility", the conditions under which System 2 will override or correct System 1, and the rules of these corrective operations (Kahneman, 2002). If one action to solve an ethical problem is more accessible than another (due to e.g. the use of analogy mechanism), this is believed to influence how we judge and act in the situation.

Building on the perspective of Kahneman on the determinants of high accessibility, this paper addresses the question how System 1 cognitive functioning can be changed/influenced. So far, when it comes to changing the determinants of high accessibility, one main focus was on a "change of the problem environment", i.e. the discussion how a change of the environment can influence intuitive judgments made by individuals. This "change the environment" approach contrasts sharply with the failure of "try harder" solutions (how to move from System 1 to System 2), which rely on conscious effort, as Milkman, Chugh & Bazerman (2008) assert. However, this thesis argues that these two strategies are not "enough" and elaborates a framework on how to change the unconscious, emotive intuitive System 1 thinking (to make it better accessible through conscious experiences) to promote ethical decision-making competences. This framework is methodologically partly based on Pedersen's (2009) work on how to counteract moral disengagement.

In the upcoming chapters it is argued that in order to change and improve unconscious judgments, individuals must acknowledge the (negative) effects of their cognitive biases on decision-making through the study of descriptive theories of ethical decision-making. Once the need to engage in strategies that reduce their cognitive biases is acknowledged, individuals must consciously engage in situations where cognitive biases work (such as e.g. community outreach programmes) in order to change our unconscious thinking and make ethical considerations "automatic". Finally, it is suggested that these strategies should be integrated into institutionalized educational programs at business schools.

3.2. How to change System 1 thinking?

The answer to the question if and if yes, how unconscious intuitive processes such as moral disengagement processes can be counteracted, is multifaceted. Business ethicists (such as Cragg, 1997 in Ritter, 2006) often argue that these processes cannot be learned nor taught at school because character and value development, which defines the psychological, emotional response to an ethical situation, has already occurred by the time individuals reach school or in particular college age. Other groups, including the Association to Advance Collegiate Schools of Business (AACSB international) and professional organizations such as the Academy of Management discuss ethical decision-making strategies and important ethical values in business decisions and advise them to be taught to students, obviously assuming that they can be trained (Ritter, 2006). Churchill (1992) suggests that the key to the question of the trainability of ethics lies in the distinction between "ethics" and moral values. In this understanding, ethics, as a systematic, conscious System 2 reflection upon a choice of behavior, he argues, can be taught. Moral values, which (in interaction with conscious cognitive processing) mainly provoke the emotive intuitive System 1 responses on the other hand, develop much earlier in an individual's life and the trainability during a short segment of time is questionable. Although this paper does not agree with Churchill's position questioning the trainability of values, as personal values are believed to be not deterministic, it acknowledges that the training of ethical values, which strongly influence the process when the problem is construed, is more difficult to "train" and clearly somehow different from existing learning approaches, especially from those applied today at most business schools. To develop a framework on how System 1 thinking can be changed, the contribution of Pedersen (2009) on strategies to counteract moral disengagement is reviewed in the following chapter.

3.2.1. How to counteract moral disengagement?

Pedersen (2009) belongs to the school of thought believing that unconscious processes such as moral disengagement can be counteracted. As a reminder, moral disengagement "repackages" conduct into something that is personally acceptable by relabeling potentially questionable behavior as morally permissible (Bandura, 1999). Bandura conclusively points out that individuals tend to reconcile their immoral actions through anticipatory self-sanctions with their ethical goals. Moral disengagement is believed to be able to take different forms, e.g. by portraying unethical behavior as serving a moral purpose, by attributing behavior to external cues, by distorting the consequences of behavior, or by "dehumanizing" victims of unethical behavior (seeing affected people as non-humans). Pedersen (2009) argues that individuals can employ moral disengagement strategies to different extents, and thereby stifle their ability to conceive of moral features of problems. According to him, the production of moral blindness as well as awareness is "a learning process, instigated either by the individual himself or by organizations, communities or systems of which the individual is part". Pedersen (2009) suggests that moral disengagement processes negatively influence the moral language employed by moral actors and the extent of taking multi-perspectives to problem formulation. Both influence the extent to which the individual unconsciously conceives of the ethical problem.

Pedersen (2009) states that the individual's explicit inclusion of moral features in problem formulation is promoted to the extent that the individual possesses a broad moral vocabulary that allows the individual to better capture and express the complexity of a moral situation. Moreover, he argues that an inclination to reduce problems to legalistic terms (legalistic reductionism as the characteristic of "using" the law as a normative yardstick) inhibits the individual's mindfulness in problem formulation, which may reduce his or her ability to conceive of moral features in the given problem from multiple perspectives.

Pedersen (2009) suggests that the development of moral disengagement strategies is promoted by an overreliance on assimilating learning at the expense of emotional awareness and meaning-seeking. Based on this perspective, he suggests that sensitivity to moral aspects of situations can be promoted by (1) a nuanced ethical vocabulary, (2) imaginative exploration of problems and situational factors that facilitate such exploration, as well as (3) active engagement in situations characterized by moral distress and values at stake, factors which are discussed in more detail in the following chapters.

3.2.1.1. Role of language

"If we watch ourselves honestly we shall often find that we have begun to argue against a new idea even before it has been completely stated" Wilfred Trotter (1872 – 1939) – pioneer in neurosurgery.

If we take the view that thought is embodied in language and language is embedded in a shared form of life, then it makes perfect sense that experience can enrich our concept of say, "honesty", while the concept itself remains the same (Freeman, 1984)

The language employed in a scientific field can be understood as being much more than a pure communication device. It is believed to trigger mental imagery and cognitive schemata that drive understanding and behavior, as Bicchieri (1998) in Ferraro, Pfeffer & Sutton (2005) asserts. Cognitive schemes are believed to be strongly influenced by language. Dominant assumptions and ideas of economics can exercise a subtle, unconscious but yet powerful influence through the language employed on behavior and judgment, through the formation of beliefs and norms about behavior that affect what people do and how they design institutions and management practices (Ferraro, Pfeffer & Sutton, 2005). Hence, language is believed to have the ability to evoke certain associations, motives and norms. When acting on the basis of language in ways consistent with the evoked norms and assumptions, we do things that produce behavior that is consistent with our "linguistic frame". According to Ferraro, Pfeffer & Sutton (2005), language can be considered as producing a social reality that reinforces and validates the terminology we use.

There is some agreement among business ethicists that linguistic practices within corporations can influence ethical behavior (Treviño, Weaver & Reynolds, 2006). This happens when theories become dominant (i.e. when their language is widely and "mindlessly" used) and their assumptions become accepted and normatively valued, even sometimes in contradiction to empirical findings (Ferraro, Pfeffer & Sutton, 2005). Following this line of reasoning, one can conclude that "the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood" (Keynes, 1936).

It was previously argued that in the business domain, due to very salient technical or financial dimensions of a problem, as well as the "tradition" and habit to "camouflage" ethical issues as e.g. financial ones, managers often fail to "sense" that their decision has important moral implications and they therefore perceive of and formulate ethical problems wrongly. But in business as in medicine, if the clinical picture is wrong, even the best medicine does not help to cure the disease and can lead to serious damage. Bird & Waters (1989) denote the inability of individuals to talk about moral issues and instead "selling" them as purely financial or technical ones as "moral muteness", which again indicates that the linguistic practices are of key importance to conceive the ethical problem from a "richer" perspective. Bird further asserts that organizational settings characterized by "moral muteness" appear to support ethically problematic behavior (Bird & Waters, 1989). Also, Bandura's (1999) paper on moral disengagement strategies offers several valid arguments on the key role language plays for the promotion of moral competence. Bandura mentions euphemistic labeling and advantageous comparison as key practices for making "harmful conduct respectable and to reduce personal responsibility for it", hence claim that through "sanitized and convoluted verbiage, destructive conduct is made benign" (Bandura, 1999).

Consequently, the moral language employed can be seen as having the power to consciously and unconsciously promote insensitivity to moral dimensions of problems. Social science theories can become self-fulfilling by shaping institutional designs and management practices, as well as social norms and expectations about behavior, thereby "creating the behavior they predict". Hence, the language and assumptions of economics actively shape management practices - and theories can "win" in the marketplace for ideas independent of their empirical validity, to the extent they become taken for granted and normatively valued, creating conditions themselves which make them come "true" (Ferraro, Pfeffer & Sutton, 2005). When individuals disengage morally, they steer their attention to aspects of moral reality (the moral features of a situation) which are not relevant, indicating that they do not perceive of moral problems, which is likely to be correlated to their poor moral vocabulary.

The "mindless employment" of professional languages thus threatens the individual's ability to conceive of moral features in organizational problem settings, as Pedersen (2009) correctly asserts. Consequently, an important question for business ethics is if business schools and business organizations promote the vocabulary necessary to conceive of ethical problems,

rather than only asking if they are teaching the correct normative theories to business ethics. Pedersen (2009) notes that by cultivating an ethical vocabulary and by seeing the world in ethical perspectives (additionally to other professional perspectives), individuals can gain experience in seeing, thinking, feeling and acting in face of ethical problems. He notes however that this relationship is not necessarily causal, i.e. it does not imply that increasing the complexity of one's moral vocabulary necessarily increases the individual's moral awareness. By stating this, he highlights that there is "a fallacy in overemphasizing the intellectual aspect of the individual's response to moral features in a situation". The direction of causality can consequently also be reversed, i.e. advanced moral competence drives the development of a more developed moral vocabulary.

It seems that an advanced moral language is supportive for both conscious and unconscious "moral" decision-making, but clearly not sufficient. Business students and managers might e.g. have general agreement on the merits of honesty, as Freeman (1984) writes. They might possess the "right moral concepts and linguistic tools" but cannot master them in the environment of business and the culture of particular organizations.

"If we take the view that thought is embodied in language and language is embedded in a shared form of life, then it makes perfect sense that experience can enrich our concept of say, "honesty", while the concept itself remains the same" (Freeman, 1984). On this theory of language, understanding is not reduced to definition, but must be expanded by experience.

3.2.1.2. Experience

> *Early experiences don't determine a life, but they set pathways, which can be changed or reinforced by later experiences (Brooks, 2011).*

Pedersen (2009) claims that an "active engagement in situations characterized by moral distress and values at stake" can promote moral awareness. He argues that both the psychological characteristics of the individual as well as his or her repertoire of moral idioms are influenced by the individuals experience with ethical problem-solving. This is in line with Freeman's (1984) position that (moral) language as an indicator for moral development cannot be reduced to definition, but must be expanded by experience.

There is ample empirical evidence that experience in dealing with moral conflict situations has a positive impact on moral awareness, as Seiler, Fischer & Ooi (2010) highlight. Clarkeburn (2002) for example shows in a study with students that experiences of short discussions of ethical issues (real-life experiences) can have a significant impact on a students' ability to perceive of ethical problems. Also Ritter (2006) asserts that - from a neuro-cognitive perspective - if a decision-making schema includes "ethics" depends on past (learned) experiences. According to her the key to promoting ethical competence is to ensure the creation of ethical schemes in all individuals and to link it to decision-making in business (so that the ethical schema becomes activated in all future business decision-making). Oddo (1997) supports this idea by suggesting that if students get into the ''habit'' of applying ethical decision-making strategies in a school setting, they will be more likely to use them in business situations (in Ritter, 2006). This is in line with the concept of the use of analogy, i.e. that individuals apply heuristics to solve (ethical) problems.

Since experiences must necessarily be acquired through practice, the only way individuals can acquire moral competence is by "engaging in moral practice", as Pedersen (2009) asserts. Moreover, he suggests that the relation between moral competence and ethical action is circular and reinforcing. Although he acknowledges that this might appear tautological, he asserts that it highlights a specific characteristic of social behavior, the one that "we as individuals develop our social capacities through experience, reflection and experimentation by example (i.e. learning from role models)". Hence, in any situation, we are obliged to take a moral stance (since there is no morally neutral position), which consequently influences our ability to take a moral stance in a similar situation based on the experience we acquired.

Haidt (2001) argues that actively "engaging in moral reality" is necessary since lack of moral diversity can make it harder to "seek a deeper understanding of the world". This applies to experiences as well as concepts and learning styles as he argues. He asserts that when people share values and morals, they become a "team". And when people use concepts they become used to it. Both processes shut down "open minded" thinking. Haidt (2001) labeled the personality trait the "openness to experience". The position hold by Haidt is in line with Pedersen's claim that the dominance of assimilating learning, i.e. learning where reflection and conceptualization dominate "at the expense of emotional awareness and meaning-

seeking", may promote the individual's blindness to the moral features of problems (Pedersen, 2009).

Pedersen (2009) comments that despite the importance of experience for ethical decision-making, this finding has at least "two sides". The view that professional as well as educational experiences influence the "lenses" through which we conceive of situations, allows Pedersen (2009) to assume that some professional perspectives are "more attune" to moral features of situations, and professional groups differ systematically in the degree to which they "facilitate" moral awareness. Hence experience can also shut down moral awareness capabilities. However, he acknowledges that this does not necessarily imply that some professional groups are inherently morally more competent than others, but that the chances that individuals are attentive to moral features of problem situations depends on their respective contexts (i.e. experiences).

The "right" experiences (i.e. experiences that facilitate the perception of moral features of situations in a rich manner) are, however, not a panacea for more advanced moral competence. The individual must also be aware of his or her experience. Ruedy & Schweitzer (2010) argue that the awareness of former experiences is captured in the individuals "mindfulness", which can be understood as the ability of individuals to perceive situations from different perspectives. Being mindful (correlated to being aware of one's experience) further involves "recognizing that there is not one optimal perspective, but rather that many possible, complementary perspectives" for a proper understanding of a situation. Ruedy & Schweitzer's (2010) research indicates that individuals who score high in mindfulness are more likely to act ethically, as well as to "holding up" their values and ethical standards, hence suggesting a positive correlation between an individual's mindfulness and his moral behavior.

3.2.1.3. Mindfulness

"When all you have is a hammer, everything looks like a nail"
- Abraham Maslow

Pedersen (2009) suggests that the "mindfulness" of individuals, as for example reflected in their formulations of ethical problems, is related to the "richness" of ethically relevant factors conceived of by the individual and hence his or her moral competence. Brooks (2011)

identified mindsight – defined by him as the ability to enter into other people's minds (empathy) and learn "what they have to offer"- as a key "ingredient" for the promotion of ethical competence. The concept of mindsight can be regarded as part of the more comprehensive concept of mindfulness, as reciprocity is an important element in perceiving situations from different perspectives.

When referring to the mindfulness of business students and managers, it is often claimed that it is less developed than of generational and professional peers. Frynas (2007) e.g. asserts that managers are often highly capable of dealing with technical and managerial challenges, and that this orientation is reflected in their "approaches to CSR". It is argued that when there is corporate "will" and the "CSR challenge" can be reduced to distinct technical tasks, for example oil companies can perform these applied tasks to a very high standard. For instance, BP's target to reduce carbon dioxide emissions, led by the company's CEO John Browne and linked to performance-related bonuses, saw staff reportedly working hard and "enjoying" the technical challenge of suggesting changes to plant and equipment. A technical/ managerial challenge can mostly be reduced to "metrics", "indicators" or "guidelines", and job performance can be quantified. However, technical managerial approaches are generally insufficient when addressing complex social problems, where more mindfulness in problem formulation is needed (Frynas, 2007). The limitations of technical/ managerial approaches can be seen in the manner in which local communities are consulted. A consultation exercise is inherently discursive, requiring in-depth discussions and the establishment of a dialogue among the people involved in it. The Deepwater Horizon incident can be considered as a very recent example of a lack of mindfulness in problem formulation (i.e. the perception of the moral dimension of the situation). Setting yourself in the mind of (or alternatively the consultation) of various stakeholders prior to the accident in forms of a broader risk assessment might have prevented the catastrophe in the Gulf of Mexico. This shows how closely the concepts of stakeholder management and mindfulness in problem construction/formulation are related.

As argued, the ability to take multiple perspectives, apart from technical and financial perspectives, allows constructing ethical problems in a richer manner. Hill (2006) adds to this view that managers are often fully capable of critical thought and can work on a strategy within a given set of conditions. He adds that especially in the absence of significant adversity

and/or cross-cultural cognitive dissonance, most managers however have few experiences[23] in recognizing and considering these conditions, as such the broader social, cultural, political and economic context within which the conditions themselves rest. Pedersen (2009) argues that for individuals and organizations to cultivate a mindful and creative approach to problems it is necessary to view "one's activities from completely different perspectives, which involves asking entirely novel questions about one's practice and by turning established ways of thinking upside down". Mindfulness can hence according to him be viewed as both correlated to the ability to conceive of a broader set of moral problem features, as well as contributing to new and unique, creative solutions to existing challenges.

Illustrated by the example on CSR, the role of mindfulness for conceiving of ethical problems can be exemplified in how ideological positions held on "responsibility" diverge between business students and generational and societal peers. Two ideological positions are particularly strongly coined at business students in assigning responsibility to different agents as Hendry (2004) claims: causation and accountability. Corporations whose actions cause direct harm are therefore more often regarded as responsible (to stop such actions and rectify the harm caused) than firms not found to be causally connected to the harm. Pedersen (2009) finds a preoccupation among business students with the related concepts of "ownership"[24] and "genesis of problems". Business students tend to think that limited liability means also limited responsibility, by "conceiving of moral features as encapsulated in a legal frame and that law serves as a normative yardstick against which they judge right and wrong" (Pedersen, 2009). Hence, the degree of mindfulness in perceiving of ethical responsibility conceptions (and hence the degree of which an ethical problem is perceived) of business students and managers often relies on a legal perspective, which implies that they appear to be less capable of making moral decisions independent of a legal anchoring. But, as exemplarily shown by Donaldson & Dunfee (1999), businesses enter a social contract between them and the societies in which they operate, which makes them also partly responsible for existing problems in the society,

---

[23] Or at least less that e.g. NGOs and cultural/environmental/ social experts

[24] The conception of ownership is often misunderstood in a business context. Although somehow wrongly preached in property rights classes, after all – as Ghoshal asserted - we know that shareholders do not own the company, not in the sense that they own their homes or their cars. They merely own a right to the residual cash flows of the company, which is not at all the same thing as owning the company (Ghoshal, 2005).

where no direct causality link is necessary. Further, as De Geer (2002) correctly asserts, especially on a global level, no legal terms exist, and responsibility has "moral character", based on a combination of interest and sense of duty. It is these connections, which business students tend to see less than their generational peers. This discussion suggests why managers and business students often have difficulties in constructing ethical problems in a "rich" perspective, since their view is overridden by the search for causality and ownership of a problem, although this is not a necessary condition for a problem to be considered ethical. Linking critical need to corporate capability "throws however a broader net of ethical responsibility over more potential actors" than looking only on for causality connections, as De Geer (2002) asserts.

Pedersen (2009) hypothesizes that business students are generally rather inclined to view the "genesis and background" of an ethical problem as important whereas generational peers might have a more "practical, forward-looking approach" to problem-solving. He puts forward that these differences might partly evolve from the degree to which different educational patterns are characterized by "analytical thinking". Jordan (2009) explains the differences in perceiving of moral problem situations by the tendency (i.e. habit) of business people to exclude moral-related information from the decision-making process because of "schema-based cognitive mechanisms that draw attention and recall abilities away from moral stimuli" (hence from a neuro-cognitive perspective).

Other common concepts for assigning responsibility are capability or power. Ethical responsibility is placed on actors that possess the power or the capability to act. Greater responsibility may be associated with greater capability (reflected in the Spiderman adage that with greater power goes greater responsibility) (Kline, 2005). Business students are seldom inclined to evaluate their accountability with regards to capability and power. This means that they do not associate greater power with greater responsibility. In other words, although managers might have control over the problem situation (i.e. have the power, capability and knowledge), they might not identify a responsibility for the action and be more inclined to evaluate other "dimensions" in the given situation at hand.

Lastly, proximity is also often associated with the concept of responsibility: actors closest to a case situation are likely to me more cognizant of unethical actions than groups operating at a greater distance. This concept lies at the heart of the subsidary principle that assumes the actors closest to a situation are going to be the best placed to respond to its circumstances,

thereby giving them principle ethical responsibility (Kline, 2005). A classic example of proximity is the consultation of local communities of resource-exploration companies. The concept of proximity is indeed believed to be of primary importance for ethical decision-making, as business decisions in a professional context often take place in boardrooms whereas e.g. medical decisions almost always take place in the presence of, or close to the patient. Hence, a lack of proximity might significantly blur the individual's ability to conceive of the ethical dimension of a problem.

With the example of the interpretation of responsibility it was suggested that business students and managers generally differentiate between ethical and non-ethical problems based on different categories than their generational/ professional peers, and that they perceive some problem dimension as more salient than other professional groups. It thus appears that managers often have a less mindful approach to conceiving of ethical problems due to their strong focus on technical and financial perspectives on problems; which - according to Pedersen (2009) - is probably influenced by the amount of analytical thinking which characterizes their education. Business students and managers often reduce their responsibility to the legal framework and do not see that this is not the only nor the "optimal" perspective of conceiving of responsibility.

3.2.1.4. Summary

This chapter introduced to Pedersen's (2009) idea that moral language is important for the promotion of ethical competence, since it enables individuals to conceive of and formulate a broader spectrum of moral features of situations. However, a moral vocabulary must be expanded by real-life experience in order to develop not only the linguistic framework but also to "master" the moral language in different environments. Moreover, the individual's awareness of his/her experience is argued to be strongly correlated with his/her mindfulness in conceiving ethical problems, which in turn is believed to have a major impact on the ability to conceive of ethical problems.

Despite these claimed influence on moral competence, Pedersen (2009) acknowledges that "the role of both a rich moral language and mindfulness in problem formulation must be seen within a broader context of development of moral competence". He concludes that, like most tools, "moral language may be used for good and bad purposes alike, and instrumental uses of moral language may indeed serve non-moral or even immoral purposes". Similarly, he asserts

that "an open approach to novel problems and ability for divergent thinking are not in themselves panaceas for ethical thought and action".

The discussion along the suggested factors to counteract the (mostly unconscious) moral disengagement processes highlights the difficulty in changing System 1 thinking. In order to improve ethical decision-making of managers and business students, we must however understand not only how they are different with regards to their moral vocabulary, their experiences and their mindfulness (hence the individual psychological make-up), but also the situational factors which surround them. This paper claims that only a combination approaches is necessary in order to understand how moral agents differ in the extent to which they are able to conceive of moral features of situations. To elaborate on how moral awareness and ethical competence can be promoted, and especially how System 1 thinking can be changed, this paper discusses in what follows existing approaches to change System 1 thinking before suggesting a process view that describes how System 1 thinking can be modified.
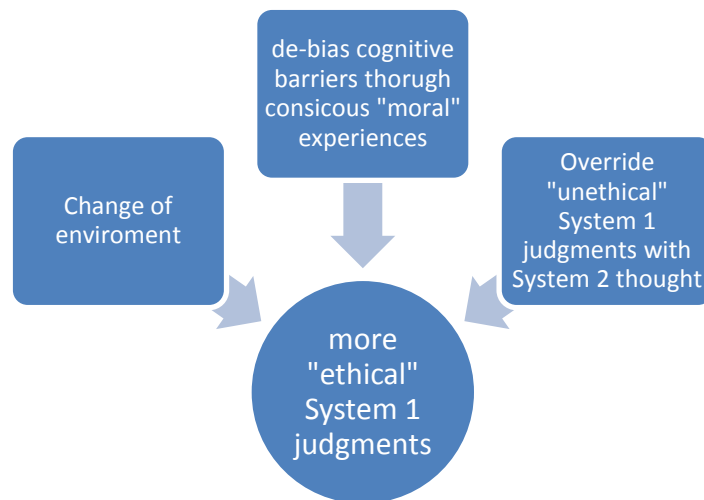
Figure 4: Strategies to improve moral decision-making (own graph)

3.3. Framework to change System 1 thinking

Pedersen's (2009) argues that capabilities such as moral language and mindfulness (of which it can be claimed that they are also "conscious" in the usual sense of the word since they are parts of conscious experience) influence the ability of how individuals unconsciously construe (ethical) problems. Based on this perspective, this section further elaborates on the question how we can systematically leverage System 1 thinking in order to improve ethical decision-making.

3.3.1. Change of environment

One strategy for improving biased System 1 judgments focuses on the "environment" and "contextual" factors, so that System 1 thinking will lead to "good" results (Milkman, Chugh & Bazerman, 2008). Rather than trying to move System 1 thinking "harder" towards more conscious principle based System 2 thinking, the change of environment strategy - amongst others discussed by Sunstein & Thaler (2003) - suggests that in order to improve biased decision-making, we must "leverage our automatic cognitive processes and turn them to our advantage".

The change of environment approach calls upon designing situations in which choices are made to increase the probability that individuals make "wise" (i.e. ethical) decisions and construe and solve ethical problems in a rich manner. Several authors have contributed to the question what must be changed in order to promote more ethical decision, as for example empirical studies on the influence of the presence of a code of conduct on ethical behavior. Gino, Ayal & Ariely (2009) highlight the social process component of the change of environment perspective by showing that when people observe an in-group member behaving dishonestly, they are more likely to engage in dishonesty themselves, but the effect disappears when observing an out-group member. Shu, Gino & Bazerman (2011) assert more generally that "providing the opportunity to cheat leads to increased moral disengagement" as compared to a situation where a control condition does not allow cheating. The authors claim that making morality salient not only reduces cheating in these studies, it also keeps individuals' judgments scrupulous, a claim which was supported by making participants to read an honor code prior to a problem-solving task, which led to a reduction in engagement in moral disengagement. Ayal & Gino (2011) conclude that when the opportunity costs to act ethically are high[25], a higher share of individuals crosses ethical boundaries and acts unethical, while maintaining a positive image of themselves as "ethical" individuals.

A remaining issue of the change of environment approach is, however, that individuals do not like to admit that they are susceptible to cognitive biases and therefore feel uncomfortable acknowledging their egocentrism and errors in judgment (and hence also in designing "favorable" situations), even to themselves, as Milkman, Chugh & Bazerman (2008) highlight. Humans put (too) much trust into their intuition (which goes along with the

---

[25] This perspective resembles strongly to Zsolnai's model of the "Moral Economic Man" which will be referred to at a later point of this thesis

decision aid "listen to your heart"[26]) since they believe that they are "natural" and impossible to be changed. This paper however argues that System 1 intuitions can be changed and that part of the solution to reduce cognitive biases depends on the individual to acknowledge his/her biases (i.e. recognition of the need for specific training and designing favorable environments) and to commit consciously to "improving his/her unconsciousness".

3.3.2. Changing the unconscious through conscious experiences

The argument brought forward in this thesis is that moral competence can be promoted through real-live exposure to situations where cognitive biases are challenged – that is unconscious processes such as moral disengagement can be counteracted through the (from a normative perspective) "right" experiences. This includes conscious engagement in mindful diverse theories (as well as by engaging in a diverging learning style), as proposed by Pedersen (2009), in order to promote a multi-perspective exploration of problems.

Improving or changing the outcome of System 1 thinking is particularly important for decision-making biases that individuals do not like to admit or believe they are susceptible to. For instance, as highlighted by Nosek, Greenwald & Banaji (2007), many individuals are susceptible to implicit racial biases but feel uncomfortable acknowledging this fact, also to themselves. In this context, conscious efforts to "do better" on implicit bias tests are often found futile, however not believed to change the intuitive judgment. This paper claims that through the "right" conscious experiences it is possible to align our System 1 judgments more and more with our conscious normative views. Referring to the racism bias this means that by exposing ourselves to situations where the bias is active, and discussing (and writing down) consciously, our normative view of these situations and biases can promote unconscious "proactiveness"[27].

This latter claim is derived from organizational development theory. Organizational theory has developed an approach to deal with a company's "reactiveness" to ethical challenges and unconscious "blindness" to ethical challenges. This paper presents a framework from

---

[26] The perspective of this paper suggests that one should only listen to his heart if your intuitions are aligned with your normative views

[27] One saying in line with this claim is that stereotyping occurs as a consequence if you know 7 or less people "good" enough from a certain group of people (i.e. you don't engage deeply enough in conscious discussions and experiences with a certain group to change your bias with them).

organizational development theory which insights are believed to be helpful to describe the process of how the individuals' moral System 1 competence can be promoted. The framework believed to be useful to deal with the individuals' unconscious reactiveness is Egon Zehnder International's process diagram of phases of organizational capability development. Egon Zehnder International (2009) describe different phases of organizational capability development of how companies facing sustainability and CSR challenges (such as for example a climate change adaptation strategy implementation) can evolve over time from being unconsciously reactive to being consciously reactive, consciously proactive before reaching the desired state, a unconsciously proactive orientation (Figure 4 and Appendix). evolves through three distinct phases between these stages, of which each requires different levels of organizational capability to address sustainability-related issues. This paper suggests that the same may apply to the individual in becoming more proactive in regards to cognitive biases. In order to become unconsciously proactive (in a normative sense), individuals should hence (in order to achieve the desired state) engage in conscious proactive behavior to improve their unconscious proactive capabilities.
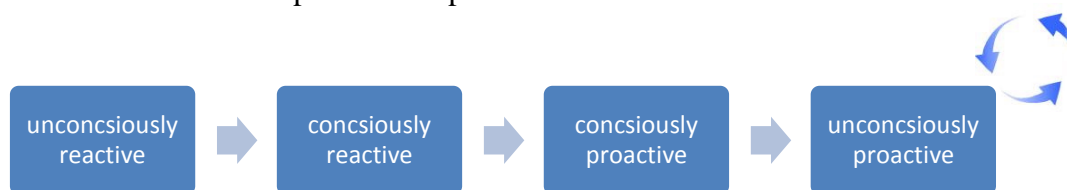

Figure 5: Phases of organizational capability development (Egon Zehnder International, 2009)

In other words, it is claimed that we must commit ourselves to applying the descriptive knowledge we possess about how our learning and development in order to promote the normative views the world possesses of how much better decision-making can be. Consequently, in order to reduce cognitive biases and its consequences (such as amongst others bounded ethicality, racism and sexism) we must gather "the right" conscious experiences designed based on the descriptive knowledge about human boundedness. Bartsch, Cole & Wright (2005) write that by experiencing real situations, we obtain knowledge which is activated in a similar, new situation and which can lead to a "new" intuitive reaction.

This view can be combined with the previous argument based on the concept of the use of analogy in a sense that we must commit ourselves to making consciously proactive ethical views a "habit". The work of Moran, Ritov & Bazerman (2008) supports this former idea, as they assert that people who are encouraged to see and understand the common moral principle

underlying a set of seemingly unrelated tasks generally demonstrate an improved ability to discover solutions in a different task that relied on the same underlying principle (in Milkman, Chugh & Bazerman, 2008). In other words, instead of making cost benefit analysis a habit, we need to consciously commit to making ethical approaches to problem-solving and cognitive bias reduction mechanisms a habit. As an example for such an exposure to cognitive biases, a community outreach program is discussed in chapter 3.5.

3.4. How to override System 1 thinking?

It was previously mentioned that one way to promote moral competence is via overriding System 1 thinking with conscious System 2 experiences.

Klein (1998) asserts that most everyday behavior is "intuitive, unproblematic and successful". Kahneman (2002) asserts that in a "fraction of cases", even though a need to correct the intuitive judgments can be identified from a normative point of view, intuitive impressions will still be the "anchor for the judgment". He thereby highlights that we are only aware of some biases such as racism and are able to override our intuitions, but not of all. This view is also supported by Haidt (2008) who argues that moral situations often invoke intuitive judgments of right and wrong, which spring from immediate emotional responses to a given predicament. Emotions, as he claims, can lead to ethical failures that people later regret, and which according to him can be avoided by increased deliberation and structural thought.

In recent years, several generic strategies to override System 1 thought by more conscious System 2 reasoning have been developed. As such it is for example suggested to replace intuition with formal analytic processes. Kahneman (2002) argues that the use of linear models can help decision makers avoid the pitfalls of many judgment biases (this might be especially true for "probability biases"). This suggestion may at the first glance seem opposed to earlier claims of this thesis (the one that analytic thinking can shut down mindfulness), however highlights the complexity of the vast number of cognitive biases as there are some intuitive unconscious judgments which need to be approached more analytically, while the opposite is true for others[28].

---

[28] This chapter illustrates the duality of both analytical thinking and the use of analogy as all the concepts can serve moral and immoral purposes in ethical decision-making.

Another strategy to move from System 1 thinking to System 2 reasoning involves taking an "outsider's perspective"[29], understood as trying to remove oneself mentally[30] from a specific situation (Kahneman & Lovallo, 1993 in Kahneman, 2002). This conception is closely related to the idea of mindsight and mindfulness as suggested earlier in this paper. Taking an outsider's perspective has proven to reduce the individuals' overconfidence about his/her knowledge, as well as the time it would take him/her to complete a task and the odds of entrepreneurial success. Instead of (or better additive to) engaging in mindful thinking, Kahneman & Tversky (1979) suggest to ask a genuine outsider for his or her view regarding a decision. This suggestion highlights how closely the concepts of stakeholder management and mindfulness in the domain of ethical problem-solving are connected.

Milkman, Chugh & Bazerman (2008) quote research on the power of shifting individuals towards System 2 thinking which has shown that simply encouraging individuals to "consider the opposite" of whatever decision they are about to make reduces errors in judgment due to several "particularly robust decision biases: overconfidence, the hindsight bias, and anchoring". This argumentation highlights that System 1 thinking and System 2 reasoning do not happen in a causal sequence, but rather that these two systems are intertwined and that later intuitive judgments (as a consequence of considering the opposite) can change, override or enforce initial "views" of the individual.

Finally, Larrick (2004) suggests that System 1 errors in judgment also can be overridden by having groups rather than individuals alone make decisions, as well as making people accountable for their decisions. This is also supported by Bazerman, Gino, Shu & Tsay (2011), who have documented the application of a joint group evaluation as an effective tool

---

[29]Kahneman & Tversky (1979) suggest reference class forecasting as a method to deal with cognitive biases. Based on their finding that human judgment is generally optimistic due to overconfidence and insufficient consideration of distributional information about outcomes, they argue that individuals tend to "underestimate the costs, completion times, and risks of planned actions, whereas they tend to overestimate the benefits of those same actions". They hence claim that these actions are partly caused to the individual taking an "inside view", where focus is the specific planned actions instead of on the statistical actual outcomes of similar actions that have already taken place. Kahneman and Tversky (1979) conclude that disregard of distributional information is perhaps the major source of error in forecasting. Based on this perspective the claim was built that individuals should make "every effort to frame the forecasting problem so as to facilitate utilizing all the distributional information that is available".

[30] Not in a sense of dehumanization of Bandura but seen from a different yet personal perspective

that can help decision makers to manage their emotional assessment of morality in favor of a more deliberate and analytical assessment of moral dilemmas[31].

To conclude, the proposed strategies to promote more "cool-headed" System 2 thinking mainly involve changes in how decision are made (e.g. taking an outsiders perspective; to consider the opposite or group/individual), which are believed to potentially reduce cognitive biases and errors in judgment typically classified as the result of "biases and heuristics" (Tversky & Kahneman, 1979). This indicates recent efforts in the decision-making domain to not only think about who should take a decision, but more "how decisions are made".

Implementation

> *[But] cognitive shortcuts can cause problems when we're not aware of them and we apply them inappropriately, leading to rash decisions or discriminatory practices (based on, say, racism and sexism). Relying on biases but keeping them in check requires a delicate balance of self-awareness (Psychology Today, 2010).*

Although much focus in ethical discussion has in the past been paid to approaches to refine conscious moral reasoning skills (i.e. normative moral reasoning) and on frameworks of which ethical considerations shall be taken in consideration in conscious ethical reasoning, insights from cognitive psychological mechanisms and barriers to sound problem-solving such as the numerous biases have been mostly ignored. This paper has suggested that, in order to improve ethical decision-making, our cognitive biases have to be reduced, amongst other strategies by committing to consciously engage in experiences where these biases are challenged (hence applying our descriptive knowledge in order to make ethical considerations "automatic"). One pivotal assumption for these strategies to be successful was the claim that individuals acknowledge their cognitive bias and the need to reduce them. Brooks (2011) argues in this context that a key challenge for ethical decision improvement strategies to be successful is that individuals need to possess the "serenity to read the biases and failures in their own mind". So far this need has been it has been considered as given, which is however rarely the case.

---

[31] Although then other problems, such as group thinking, could come into play.

As previously mentioned, also Haidt (2008) considers it of utmost importance to know our moral psychology in more depth in order to understand why - and acknowledge that - "everybody thinks he is right". Building on this, it is argued in this paper that the acknowledgment of cognitive biases such as bounded ethicality and the serenity to read them is best achieved by knowledge about (and hence teaching of) procedural knowledge of ethical decision-making (i.e. descriptive theories of ethical decisions making), including insights from cognitive psychology such as our numerous biases. It is argued that being better informed about the cognitive biases that influence our thought sensitizes individuals to the necessity to engage in moral practice (conscious moral experience) to improve unconscious problem-solving processes.

3.4.1. Teach procedural knowledge

> *Through understanding the differences between whom we think we are, who we aspire to be, and how an outsider would perceive us, we can begin to uncover the biases that cloud our self-perceptions, and identify our everyday ethical shortcomings relative to our espoused moral standards. Bringing this ethical discrepancy into resolution will be the first pivotal step towards seeing a positive shift in ethical behavior (Shu, Gino & Bazerman, 2011).*

One main implication of the presented psychological barriers to sound problem-solving is that effective ethics training must lead to ensuring that decision makers do not always take a rash decision but that instead interpret and try to understand their intuitive emotive processes as well as its errors. The position of this paper is that this can best be achieved by teaching procedural knowledge of ethical decision-making (i.e. descriptive approaches to ethical decision-making).

By studying descriptive theories of ethical decision-making individuals learn to better understand their „thinking patterns", i.e. their moral cognitive processes. A series of articles (such as Banaji, Bazerman & Chugh, 2005) confirm that descriptive knowledge about ethical decision-making contributes to better decisions, asserting that individuals thereby become aware of systematic cognitive biases that affect how they process information. Moreover, by learning about how the human mind works, individuals can acquire a more systematic problem-solving technique for moral conflicts (Seiler, Fischer & Ooi, 2010).

Descriptive theories of ethical decision-making teach us to see ourselves and our ethicality differently from the still most widespread view of human behavior. This new perspective includes the acknowledgment of the inter-subjective nature of ethical problems, our sometimes misleading intuition and the cognitive biases of individuals. Descriptive theories from the field of social and cognitive psychology help in particular business students to understand that ethical problems are better viewed as a social construction of the individual and by no means unambiguous. If they realize, for example, the need for a shared understanding of the ethical problem, this will most likely also change their view of e.g. stakeholder management in business practice. Moreover, acknowledging the tendency for an ethical bias in moral judgments not only allows to easier address stakeholders which might have been left unaddressed and thereby perceive of the ethical problem from a richer perspective, but also to rethink the claim of their moral rectitude and moral objectivity.

The need for teaching procedural knowledge on ethical decision-making becomes also obvious by empirical evidence on self-perceptions. Brooks (2011) argues that empirics clearly show that we are "overconfidence machines". According to his studies, 95 percent of professors report that they are above average teachers. 96 percent of college students say they have above average social skills. Moreover, when Time magazine asked Americans if they are in the top one percent of earners, 19 percent of all Americans reported that they believe that they are in the top one percent of earners. Moreover, the level of overconfidence is a gender-linked trait (which again would indicate the strong need to teach procedural knowledge at male-dominated business schools). Empirical evidence shows that men drown at twice the rate of women, because they think they can "swim across that lake".

3.5. How to change System 1 thinking - Implications for business education

The presented perspective has important implications for business education which shall be discussed in this chapter. The suggestions made are however by no means exhaustive. Several other fruitful strategies on how to improve ethical decision-making may be added. As suggested several times throughout this paper, one major implication is that we must not only change what we teach (e.g. a stronger focus on descriptive theories of ethical decision-making as well as a stop of self-fulfilling immoral theories), but also how we teach ethics at business schools (i.e. the learning style, which needs to include more experiential elements):

- In order to improve ethical decision-making, individuals must be aware of both normative philosophical approaches to ethics (to know how much better his decision-making can be), but especially descriptive theories of how the human mind works and how individuals actually do make decisions. Recent research in the field of descriptive behavioral ethics supported by empirical studies help individuals to acknowledge their many cognitive biases and contribute to being more careful about claims of moral objectivity and rectitude, thereby perceiving ethical problems from a richer perspective.

- Business schools must stop teaching immoral theories of human behavior (such as the homo oeconomicus model) since they become self-fulfilling and create an illusion of objectivity.

- Particularly in the business domain, we must be careful not to teach too fragmented concepts with too high of a focus on causation and accountability of problems so that other salient ethical problem dimensions are also perceived of properly. We must be careful to not crowd out our moral capabilities to perceive of distinctively ethical dimensions of problems.

- The "change of environment" perspective suggests that we need to try to eliminate institutionalized moral disengagement, i.e. to promote an environment in which the individual is able to perceive the ethical problem from a richer perspective. This implies amongst other things e.g. to cement the use of convoluted language in business practice (which by definition is an ethical decision-making context, since everything is grounded in an ethic). To the contrary, we must equip individuals with an advanced moral vocabulary in order for them to be able to be unconsciously proactive in perceiving of ethical problems in a rich manner.

- We must improve the ability of individuals to perceive situations from different perspectives (i.e. the individuals mindfulness), which is strongly influenced by the individual's ethical decision-making experiences and the awareness of his or her experience (extend and support the discourse on ethical problem situations).

- Moreover, once we have acknowledged our many cognitive biases and learned more about out cognitive psychology, we must commit ourselves to putting conscious efforts into reducing them by engaging in situation where we are exposed to unconscious reactive intuitions (such as e.g. through a community outreach programme). In these situations and during these experiences, we must consciously override some of our intuition with the ambition to de-bias our unconsciousness.

3.5.1. How ethics should be taught in order to change intuitive judgments

Existing learning style

It was claimed above that existing learning at business schools is dominated by specialized approaches, with a high focus on analytical thinking and financial/technical concepts. This focus has also affected the learning/teaching styles of business schools, which are dominated by abstract concepts and non-creative approaches to problem-solving.

One example for this is that in business education, and especially in large corporations, information technology is increasingly being used in ethics training. Supporters of this approach argue that this makes it possible to "record" the number of students/workers/ staff members who have completed an ethics training program, which for companies is important when trying to comply with rules regarding training(or more generally legal requirements). Further advantages are believed to be cost-effectiveness, timeliness and expediency. However, features of computer based ethics training may also limit its value as far as having a real effect on people's beliefs, perceptions and behavior is concerned. In online ethics training, ethics is treated as though it compromises a fixed body of knowledge, which can be digitalized and "downloaded" for easy consumption from a distant location, without any real-life experience connected to it. Moreover, predefined cases of "ethical dilemmas" are presented, which generally involve clear "correct" answers and do not allow increasing moral awareness of individuals, but rather how to deal with ethical problems ones they are constructed (as well as how to construct them). As such, it is unlikely that computer-based ethics learning approaches have any meaningful effect on people's everyday behavior (Painter-Morland, 2008).

Ethical problems are much more complex construct than "pre-defined cases of moral black and white" and involve conscious and unconscious judgments. The moral agent himself must construct ethical problems. Pedersen (2009) correctly argues that students need to identify and formulate their own problems, and this "task of making sense of which features are morally significant in any given problem or situation" is a primary issue in ethical problem-solving.

Building on the presented framework on decision improvement strategies, this paper argues that although the development of moral competence may to some extent be promoted by consciously employing strategies from a classroom for actively perceiving problems in a multitude of perspectives (and for stimulating imaginative formulations of problems), these exercises should ideally be connected to "lived" real-life experiences of the individual.

Pedersen (2009) suggests that in order to address the "duality" (System 1 and 2 thinking) of moral competence, a different learning style is necessary. Ritter (2006) argues that an effective implementation of promoting ethical competence involves providing a good learning environment with an open atmosphere that includes "experiential and active learning components". Providing creative components as part of the (ethics) curriculum can help demonstrating the relevance of applying ethical theories to real-life scenarios, as well as increasing transfer from school to work contexts (Ritter, 2006). In support of this, Pettifor, Caldow & Rowcliffe (2000) present empirical evidence that suggests that an experiential approach may be most effective for students to "learn" ethical decision-making, to increase awareness to ethical dimension of problems, as well as to increase self-awareness (Pettifor, Caldow & Rowcliffe, 2000).

In order to respond to mounting criticism of the inadequacy of business education, Sims & Sauer (1985) proposed the experiential learning model as a theoretical base to design management curricula intended to develop managerial competencies in business students already in 1985. Sims & Sauer (1985) offer seven core principles, most of which are still relevant, that need to be in place if such curricula are to be successfully implemented:

1. Ability to face new situations and problems 2. Emphasis on both theory and practice

3. Opportunity to have a direct managerial experience 4. Relevant and reliable assessment methods 5. Effective feedback 6. Increase self-knowledge 7. Reflection and integration as a key final step in the acquisition of moral competence.

Pedersen (2009) elaborates in detail on this position and argues for engaging more in the diverging learning style of experiential learning theory as conceptualized by Kolb, where the individual is feeling and reflecting (which corresponds with the duality of moral thought, in the sense that it involves both "hot" and "cold" (i.e. conscious and unconscious) processes). Pedersen (2009) bases his argument on findings from experiential learning that show how engaging in diverging learning, which is oriented towards imaginative ability and awareness of meaning and values (Kolb, 1984), enables the "exploration of ethical problems" (i.e. construction).

Diversity awareness training programs – de-bias the unconscious

Based on the developed position, a broad moral vocabulary allowing well formulated ethical problems, can be regarded as an important "ingredient" for the promotion of moral competence. However, ethical problems can only be perceived of from a richer perspective if the (even diverse) moral language employed is not only reduced to definition, but expanded by experience. Moreover, this paper claimed that we need to exposed ourselves to situations where "unethical" cognitive barriers are at work, and consciously override some of our intuitive judgments with normative views (in order to de-bias our unconsciousness). One way to actively engage in situations with salient ethical dimensions are community outreach programs, as e.g. employed by the American parcel delivery company UPS since 1968. UPS's Community Internship Program is intended to raise diversity awareness of "high advancement potential"- employees through "living the experience" (UPS, 2007).

UPS community outreach programs' intention is to touch an emotional chord and unlock "an attic in the mind of well-intentioned people" that may only be accessible by "taking the time to walk in someone else's shoes" (UPS, 2007). Participants in the program are required to leave their work for five weeks and travel to a distant community. One year for example, they were assigned to either a social service agency, an immigrant border town or an Appalachian mountain community. The locations chosen are afflicted with issues such as poverty, homelessness, spousal abuse, drugs, crime, and gang warfare (hence all situations in which ethical problem dimensions reside), which typically allows assigning managers to unfamiliar environments[32]. The program allows students to cultivate the ability for scanning the disorderly reality of everyday life in order to identify morally significant dimensions of problems. The participants engage in situations in which cognitive biases affect their moral thought (as some of them might engage in racist (intuitive) judgments against Appalachian mountain community members or stereotype drug abusers etc.). Hence the participants take part in situations in which unconscious and conscious reactive[33] thinking is evoked. This is one major reason why the program is believed to be a good example of a program to promote moral System 1 competence, as it is argued that in order to appreciate what diversity is about,

---

[32] For example, if they have urban backgrounds, the program operators try to assign them to the rural communities. If they are from rural areas, they are sent to a bigger city.

[33] in a normative sense of the word

we have to get out of our "comfort zones" from time to time and to see things from the inside looking out by "living the experience".

Students and managers taking part in a this or a similar program can be required to keep a daily log of activities performed and their personal thoughts, promoting their moral vocabulary. They should also be encouraged to regularly discuss their experiences with other participants (students, social workers and affected people), to promote the discourse on ethical problems and to create a better understanding of the need for shared recognition of ethical "challenges". Such discussions promote the individual's ability to see problems from very different perspectives, and it reminds the individual of his or her experience during the program and thereby increases the awareness the experiences. This success of such a program is supported by empirics. All these measures contribute to reduce cognitive biases, as conscious experiences in overriding unethical System 1 judgments is gathered. Leaving the program, most interns were assessed independently as being more aware of some "conditions that exist in our society". They were more sensitive to the reality that e.g. problems like homelessness, spousal abuse and drugs could also happen "in their backyard" and affect their colleagues (increased reciprocity).

It could be argued that a specialized trainer could have given the participants all the relevant information about the projects in a classroom exercise (as it is – to a limited extent – the case in present business education). Or, the community outreach interns could have downloaded a self-study culture module from the Internet, while never leaving their home or workplace. These claims highlight a central point for the promotion of moral competence. Just the information (i.e. pure knowledge and vocabulary) itself only limitedly promotes the participant's diversity awareness, since these "tools" must be expanded by experience.

Such intensive programs as the one presented may however not be "feasible" for business students and managers in the existing management and education paradigms due to time and money constraints. Mentoring from outside the subject area is another way to gather experience in diversity awareness and overriding "unethical" cognitive biases. McCoy (2007) for example describes that when he realized the need for a shared recognition of ethical problems, he started to acquire a set of "outside mentors" in the real estate business and doctors who advised him and supported his business decisions (McCoy, 2007). McCoy argues

that - very generally - in order to increase diversity awareness and to decrease cognitive biases and psychological barriers such as moral disengagement, one has to "engage in activities - whether music, writing, philanthropy, athletics or others". He asserts that this helps us connect with people of different backgrounds and interests than those we know at work, helping us to perceive of ethical problems from a richer perspective. This view can also be found in a statement by Thronten Wilder, in his novel Theophilus North, who wrote that in order to stay attuned to life, "a man should have at least three masculine friends older than himself, three of about his own age, and three younger. And he should have three older women friends, three of his own age, and three younger." And that the friends should not be all of the same occupation nor have the same interests. "Such relationships can become signposts in our journey" to personal integrity and developing moral competence, with the "younger reminding us of the past and the older giving us hope for the future".

The view that diversity awareness and more "ethical" System 1 judgments are learnable (and thus teachable) is supported by van Aerssen. Van Aerssen (2010) argues that diversity awareness is best trained through engaging in changes of perspectives. Besides "common" techniques such as brainstorming and mind mapping, he mentions several other techniques in order to practice taking various perspectives. He argues that the different techniques can be categorized into three types: methods to collect "loose" ideas such as brainstorming and mind mapping, role-plays such as the Walt-Disney-method or the Six-Hat-Method, and checklists. Van Aerssen (2010) argues that in role play, students can develop and act out (i.e. actively experience) situations characterized by (ethical) conflict and take on various roles to assume different perspectives and involve emotionally and existentially in the problem. Examples of such roles could be to be a "dreamer", "realist" or "critic". In role-play, participants engage in active experimentation, which stimulates reflection. Through the dialogical relationship with other roles in such games, the discourse that often exists in "normal" universities between different faculties (compared to "specialized" business schools), can be simulated. Role-play practice has been conceptualized by, amongst others, de Bono (1985). The de Bono Hats system or "Six Thinking Hats" is considered a thinking tool, with the premise of the method being that the human brain thinks in a number of distinct ways which can be deliberately accessed and hence planned for use in a structured way allowing one to develop different strategies for thinking about particular issues. To use six thinking hats to improve the quality of decision-making, individuals are asked to look at the decision, "wearing" each of the

thinking hats in turn, where each "thinking hat" is a different style of thinking. The method helps one to understand the full complexity of a decision, and spot issues and opportunities, which you might otherwise not notice. De Bono (1985) argues, similar to this paper that successful people often think from a very rational analytical viewpoint even in situations in which it would be better to "listen to the intuitive judgment"[34], and this is part of the reason that they are successful. Often, though, they may fail to look at problems from creative viewpoints of a different perspective, especially in situations in which cognitive biases bound the individuals thinking.

To conclude, there a several different strategies for disciplined imagination to de-bias our cognitive biases increase our diversity awareness that the individual can employ to enhance his ability to stimulate more imaginative ways of understanding ethical problems and thereby increase the likelihood for more "ethical" behavior. The presented recommendations and techniques are by no means exhaustive and other approaches and techniques might be added.

3.6. Limitations

Discovering a more accurate vision of the unconscious is challenging in different ways. On the one hand the unconscious can offer help to override "poorly trained" System 2 thinking, e.g. when existing schemata and thinking patterns are based on the rational, homo oeconomicus paradigm. On the other hand, the unconscious can also lead to judgment errors and bound ethical decision-making, hence work as cognitive barriers to sound judgments which - from a normative standpoint - are clearly unethical. The field of cognitive biases and behavioral economics, especially System 1 thinking, is still a relatively undiscovered topic with a vast potential for further research and thought. The role of the unconscious as both a poise and help for decision-making offers a lot of room for more research on this topic.

Similar to this view of System 1 thinking is the idea that experience and the use of analogy can serve good as well as immoral purposes. For an individual who engages in diversity awareness programs, but already possesses relatively persistent stereotyping schemes, an e.g. too short training might in fact have opposite effect on ethical thought and behavior. Moreover, experience that increases the individual's tendency to apply cost benefit

---

[34] Not all cognitive biases are "bad" in a sense of that they lead to unethical outcomes. The same accounts for our intuitive judgments. While some intuitive judgments are from a normative perspective required to be overridden, emotions such as compassion and empathy can be very helpful to promote ethical behavior and should not be moved to more conscious System 2 cost benefit decisions.

approaches may stifle the individual's ability to conceive of the moral dimension of a problem, and thereby lead to more immoral behavior.

The position of this paper is that it takes practice, commitment and discipline to promote moral competence, and that not all areas of the multidimensional construct moral competence are addressed in existing approaches to teaching ethics. Promoting moral competence can in certain ways be compared to learning a language. In fact, it also involves learning a "new" language. To master a language, we need not only to study the basic grammar rules and vocabulary, but also learn how to express ourselves in different situations and accept the fact that sometimes it is more difficult to say what we feel and think than at other times. We sometimes are also misunderstood by others. We need to both study consciously and digest "unconsciously" our acquired knowledge. We need experience about which words to use in certain situations and which not. We must learn that there are several ways to describe the "same thing". Lastly, we must constantly cultivate and practice a language. While some people are more "gifted" than others to learn a new language / acquire moral competence (e.g. to identify and understand claims of some stakeholders), others are more challenged with taking a reciprocal perspectives or thinking in different roles. The perspective of this paper is that personal background and family values, as well as childhood experiences play an important role in the formation of personal values and the acquisition of moral competence[35], but are not deterministic.

Discovering ethical problems is a never-ending journey, or as Pedersen (2009) writes "an ever-changing arena that is created, negotiated and evolved inter-subjectively by the actors and agents involved". For corporations that means, as Pedersen (2009) asserts, that they must always (re)formulate (moral) problems. This has a profound impact on management as a hole. As he conclusively points out, the developed systems which aim for individuals to manage problems need to be dynamic rather than routinized. Successful organizations change their view on what behavior is appropriate over time. Cultures and ethical standards must therefore be modified and tested against new developments and the changing behavior of competitors and society at large. Successful organizations also acknowledge the fact that there is a need

---

[35]In this context it is worth noting that the role of a rich moral vocabulary that is expanded by experience of the individual and the ability to see problems from multiple perspectives are not panaceas for more ethical behavior, but must be seen in a broader context of ethical development (Pederson, 2009).

for a joint view of ethical problems, as the ethical domain is not as easy to narrow down as e.g. financial and analytical data.

Finally, as highlighted earlier in this thesis, ethical problems don't necessarily have a right answer. Most often, there is no textbook response to ethical situations as opposed to pure financial ones. Nor is it always clear when System 1 and 2 judgments are unethical. The problem, however, is that often it is assumed that ethical problems do not exist in finance other analytic settings, as they are assumed to only reside in softer fields such as human resource management and marketing. By ignoring salient moral dimensions of problems or following System 1 judgments blind, students and managers sometimes make decisions, which are against their conscious ethical values and unintentionally unethical.

The fact that salient moral dimensions of problems are often crowded out indicates that good ethical decisions may take longer time than commonly given by corporations, where the need to act fast in lights of competitiveness is generally emphasized. Information overload, especially of clearly measurable analytical data contributes to the individual to put his or her moral faculties "on hold". We clearly need to fundamentally rethink the way we train people and corporations for success (Brooks, 2011). Our tendency to value the things we can measure more than complex human traits such as character, cognitive biases and morality clearly increases insensitivity to moral domains.

Finally, this paper argued that in order to improve ethical decision-making, individuals shall consciously and continuously commit to de-bias their "unethical" cognitive shortfalls. This paper has for simplification taken a black and white view of cognitive biases, which is not reflecting decision-making reality. To the opposite, ethical problems and awareness of them are much more ambiguous and grayish than assumed in this paper.

4. Conclusion

RQ1: How do "traditional" descriptive theories of moral cognitive development as well as related research which builds on this approach explain (un)ethical behavior and what are the main underlying assumptions of (the theoretical base of) this paradigm?

Kohlberg's and Rest's cognitive moral developmental approach establishes the rationalist position that moral judgment is reached as a causal consequence of conscious, language-based cognitive awareness processes, which allow to be explicitly ranked based on the extent to which judgments on pre-defined cases can be considered as "advanced" or "developed". Although smaller efforts are taken to include situational and contextual factors in decision-making models (such as e.g. by Treviño, 1986 or Jones, 1991), most additional research is dominated by objectivist models which consider e.g. the step when the individual becomes aware of a moral issues as the "recognition of moral reality", and thereby moral blindness as a pure individual-level phenomenon. Unethical behavior is thus claimed to be the responsibility of unethical "bad apples" with immature moral development.

As the bad-apple approach is however not able to account for a huge part of ethical failures, this paper chooses a descriptive view of human behavior and thought to investigate further on the topic, in distinction to economists' traditional normative view on ethical decision-making.

RQ2: What are barriers to "sound" ethical awareness and judgments that lead to cognitive biases, and what are their implications on the theoretical base of the moral cognitive development theory, and hence the understanding of the entire ethical decision-making process?

The second part of this paper argues that the role of rational thought aka Kantian typology to the point of excluding other relevant cognitive processes such as intuition and emotions, as well as the impact of the problem environment on ethical thought, to be insufficiently accounted by approaches building on Rest and Kohlberg's theoretical base. Besides emotional/intuitive influences, this paper highlights the importance of motivational influences of individuals on ethical thinking. It illustrates that in addition to emotions and intuitions which strongly affect the "wisdom" of decisions, there are several other systematic "failures" in ethical thought. Consequently, unethical behavior is found to not necessarily have to be due to underdeveloped (conscious) principle-based reasoning skills nor bad intensions, as individuals engage in anticipative (and mainly unconscious) psychological mechanisms such as moral disengagement, which cause that humans often do not "sense" the moral significance of a situation at hand. After the discussion of concepts such as bounded ethicality and other

cognitive biases, it is argued that individuals are not only unconsciously "blinded" to a rich perception of ethical problems[36], but often also consciously apply self-serving interpretation of problems to avoid conflicts of interest while maintaining a positive view of their own ethicality. This paper sees human beings not only as much "nicer" than suggested by the existing homo oeconomicus paradigm, but also much "weaker" (in their ability to make rational, unbiased decisions) than classical theory predicts. The position of this paper therewith detaches itself from the "bad apples" approach, claiming that despite advanced moral reasoning skills and best intentions, people can nevertheless can fail to act ethical as responsible individuals due our "moral psychology" (i.e. certain cognitive barriers to sound ethical problem-solving).

RQ3: In light of the barriers to "sound" ethical decision-making due to the individual's boundedness, how can moral competence of future managers be improved through "moral" business education?

The third part of this paper addressed the question how moral competence of future managers can be improved based on the insights from the earlier developed view of ethical problem-solving. It is argued that a descriptive behavioral approach relying on insights from (cognitive) psychology is a necessary complement to more traditional prescriptive normative approaches to business ethics teaching. This builds on a central claim of this paper - the need to learn about, acknowledge and continuously de-bias our cognitive shortfalls. This is in line with Shu, Gino & Bazerman's (2011) position that in order to improve ethical decision-making, we need to "cast our rose-tinted self-perceptions aside in favor of a truthful look at behavior - ethical vulnerabilities and all".

This paper argues that our System 1 cognitive biases can be reduced (aligned with conscious normative views) through experience in situations where "barriers" to sound ethical decision-making are at work. In other words, it is suggested that in order to improve our "unethical" System 1 thinking, we must commit ourselves to apply the descriptive knowledge we possess about when our human mind works wrong (i.e. is bounded) in order to promote the normative views the world possesses of how much better decision-making can be.

---

[36]Based on the work of Pedersen (2009), a subjectivist/objectivist position of moral problems is presented. The cognitive processes when the individuals perceive of and solve ethical problems are argued to be to a major extent unconscious and strongly dependent on the moral vocabulary, experience and ability to investigate problems from a multi-perspective of the individual.

The findings of this paper indicate that our System 1 thinking is much more decisive for ethical decision-making than commonly thought. But despite from being "right" in every instance, our intuitive unconscious processes also bound decision-making through psychological processes such as moral disengagement and can even lead to unethical behavior with full awareness which is in contradiction to our own conscious normative views. Evaluating which judgments need to be corrected or overridden is an act of balancing both requiring knowledge about our moral psychology (descriptive ethical theories including cognitive biases) as well as normative views to ethical decision making.

Nowadays, empirical evidence and descriptions of cognitive biases exist in abundance. And while cognitive biases are not necessarily an issue of "honesty", they have major implications for the trustworthiness of decision-making and managers. The training and de-biasing of our unconscious mind is believed to be a major challenge to improve ethical decision-making. We need to more deeply understand System 1 thinking and develop more strategies on how to change and improve it. This paper calls for more research on strategies for improving ethical problem-solving.

"Finally, although this book is complete, the journey is not over, either for me not for you, the reader. We are always growing [and becoming] and dealing in new contexts. A specific gripe of mine about "business ethics" is the complaint that graduate students are too old to learn ethics - that their values have been embedded long ago" (McCoy, 2007).

Bibliography

- Agle, B., Mitchell, R., & Sonnenfeld, J. (1999). Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance, and CEO values. *Academy of Management Journal: 42(5)*, 507-525.

- Ayal, S., & Gino, F. (2011). Honest rationales for dishonest behavior. In M. Mikulincer, & P. R. Shaver, *The Social Psychology of Morality: Exploring the Causes of Good and.* American Psychological Association.

- Ayton, P. (2005). Judgment and Decision-Making. In N. Braisby, & A. Gellatly, *Cognitive Psychology.* Oxford University Press.

- Bandura, A. (1999). Moral Disengagement in the Perpetration of Inhumanities. *Personality and Social Psychology Review, 3, 3*, 193-209.

- Baron, J., & Ritov, I. (2004). Omission bias, individual differences, and normality. *Organizational Behavior and Human Decision Processes 94*, 74–85.

- Bazerman, M., & Banaji, M. (2004). The social psychology of ordinary ethical failures. *Social Justice Research*, 111-115.

- Bazerman, M., & Moore, D. A. (2008). *Judgment in Managerial Decision Making.* New York: Wiley.

- Bird, F., & Waters, J. (1989). The moral muteness of managers. *California Management Review, 32(1)*, 73-88.

- Blum, L. (1991). Moral Perception and Particularity. *Ethics, Vol. 101, No. 4*, 701-725.

- Bönisch, J. (2007, November 30). *Beruflich bedingte Missbildung*. Retrieved October 11, 2010, from sueddeutsche.de: http://www.sueddeutsche.de/karriere/deformation-professionnelle-beruflich-bedingte-missbildung-

- Bradley, S. (2010, June 7). *The Framing Effect: Influence Your Audience By Setting The Context*. Retrieved October 10, 2010, from http://www.vanseodesign.com/web-design/framing-expectation-exposure-effect/

- Brooks, D. (2011). *The Social Animal: The Hidden Sources of Love, Character, and Achievement.* New York: Random House.

- Butterfield, K. D., Trevino, L. K., & Weaver, G. (2000). Moral Awareness in Business Organizations: Influences of issue-related and social context factors. *Human Relations 53(7)*, 982-1018.

- Butterfield, K. D., Trevino, L. K., Weaver, & G.R. (2000). Moral Awareness in Business Organizations: Influences of issue-related and social context factors. *Human Relations 53(7)*, 982-1018.

- Carroll, A. (1991). The Pyramid of Corporate Social Responsibility. *Business Horizons*.

- Chugh, D., & Bazerman, M. (2005). Bounded Awareness: What You Fail to See Can Hurt You. *HBS Working Paper #05-037*. Boston.

- Chugh, D., & Bazerman, M. H. (2004, October 15). *RUNNING HEAD: Bounded Awareness: What You Fail to See Can Hurt You*. Retrieved May 17, 2010, from http://www.people.hbs.edu/mbazerman/Papers/Bounded%20Awareness.pdf

- Chugh, D., Banaji, M., & Bazerman, M. (2005). Bounded Ethicality as a Psychological Barrier to Recognizing Conflicts of Interest. In D. Moore, D. Cain, G. Loewenstein, & M. Bazerman, *Conflicts of Interest: Challenges and Solutions in Busines*.

- Churchill, L. R. (1992). The teaching of ethics and moral values in teacher: Some contemporary confusions. *The journal of higher education, 53*, 296-306.

- Clarkeburn, H. (2002). A test for ethical sensitivity in science. *Journal of Moral Education, Vol. 31, No. 4*, 439-453.

- Clarkson, M. B. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. *Academy of Management Review 20(1)*, 92-116.

- Collier, N. S. (2010, April 18). *Focusing Effect*. Retrieved October 10, 2010, from NSCBlog: http://www.nscblog.com/miscellaneous/focusing-effect/

- Collins, D. (2009). *Essentials of Business Ethics*. John Wiley & Sons Inc.

- Collins, L. (2006, May 26). *Power Hour*. Retrieved Jan 15, 2011, from The New Yorker: http://www.newyorker.com/talk/2008/05/26/080526ta_talk_collins

- Crowther, D., & Rayman-Bacchus, L. (2004). *Perspectives on Corporate Social Responsibility*. Ashgate.

- de Bono, E. (1985). *Six Thinking Hats: An Essential Approach to Business Management*. Boston, New York, London: Little, Brown & Company.

- De Cremer, D. (2009). *Psychological perspectives on ethical behavior and decision making*. Information Age Publishing.

- De Cremer, D., van Dick, R., Tenbrunsel, A., Pillutla, M., & Murnighan, J. K. (2011). Understanding Ethical Behavior and Decision Making in Management:A Behavioural Business Ethics Approach. *British Journal of Management*, S1–S4.

- De Geer, H. (2002). Business and Society. In L. Zsolnai, *Ethics in the Economy.*Oxford, Bern, Berlin, Bruxelles, Frankfurt am Main, New York, Wien: Peter Lang.

- De George, R. T. (1993). *Competing with integrity in international business.* Oxford University Press: Oxford.

- Donaldson, T. (1989). *The ethics of international business.* New York: Oxford University Press.

- Donaldson, T., & Dunfee, T. (1999). *Ties that bind: A social contracts approach to business ethics.* Harvard Business School Press.

- Duncker, K. (1945). On Problem Solving - Series: Psychological Monographs, 58. *American Psychological Association*, 113 p.

- Egon Zehnder International. (2009). *Phases of Organizational Capability*. Retrieved Feb 12, 2011, from Egon Zehnder International: http://www.egonzehnder.com/global/thoughtleadership/knowledge/sustainability/article/id/83700053/imagedetail/sustain_challenges_2.gif

- Eisenberg, N., Spinrad, T., & Sadovsky, A. (2006). Empathy related responding in children. In M. Killen, & J. Smetana, *Handbook of moral development* (pp. 137-140). Mahwah: Lawrence Erlbaum.

- Epley, N., & Gilovich, T. (2002). Putting adjustment back in the anchoring and adjustment heuristic. In T. Gilovich, D. Griffin, & D. Kahneman, *Heuristics and Biases* (pp. 130-149). New York: Cambridge University Press.

- Evatt, C. (2010). *The Denial Bias*. Retrieved April 15, 2011, from http://brainshortcuts.blogspot.com/2010/11/denial-bias.html

- Falkenberg, A. (2004). Power and Responsibility in International Value Chain Networks. *Journal of Marcomarketing*.

- Falkenberg, A. W. (2004). When in Rome ... Moral Maturity and Ethics for International Economic Organizations. *Journal of Business Ethics 54*, 17–32.

- Ferraro, F., Pfeffer, J., & Sutton, R. (2005). Economics Language and Assumptions: How Theories Can Become Self-Fulfilling. *Academy of Management Review 30*, 8-24.

- Ferrell, O., & Thorne, D. M. (1993). A Multimethod Approach for Understanding Ethical Decision Making in Marketing. In T. Massey, *Marketing - Satisfying a Diverse Customerplace.* Southern Marketing Association.

- Ferrell, O., Fraedrich, J., & Ferrell, L. (2008). *Business Ethics: Business Decision Making and Cases.* Houghton Mifflin Co.

- Fiske, S. (2004). *Social Beings: A Core Motives Approach to Social Psychology.* New Jersey: John Wiley.

- Fiske, S., & Taylor, S. (1991). *Social Cognition.* McGraw-Hill.

- Ford, R., & Richardson, W. (1994). Ethical Decision Making: A Review of the Empirical Literature. *Journal of Business Ethics*, 205-221.

- Frank, R. H. (2004). *What Price the Moral High Ground? How to Succeed without Selling Your Soul.* Princeton University Press.

- Freeman, R. E. (1984). *Strategic Management: A stakeholder approach.* Boston: Pitman.

- Frynas, J. (2005). Setting New Agendas: Critical Perspectives on Corporate Social Responsibility in the Developing World. *International Affairs, 81 (3)*, 499-513.

- Gaudine, A., & Thorne, L. (2001). Emotion and Ethical Decision-Making in Organizations. *Journal of Business Ethics*, 31.

- Ghoshal, S. (2005). Bad Management Theories Are Destroying Good Management Practices. *Academy of Management Learning & Education*, 75-91.

- Gilligan, C. (1993). *In a Different Voice: Psychological Theory and Women's Development.* Boston: Harvard University Press.

- Gilovich, T. (1993). *How We Know What Isn't' So - The Fallibility of Human Reason in Everyday Life.* New York: The Free Press.

- Gino, F., Ayal, S., & Ariely, D. (2009). Contagion and differentiation in unethical behavior: The effect of one bad apple on the barrel. *Psychological Science*, 393-398.

- Gino, F., Ayal, S., & Ariely, D. (2009). Contagion and differentiation in unethical behavior: The effect of one bad apple on the barrel. *Psychological Science, 20(3)*, 393-398.

- Gino, F., Moore, D. A., & Bazerman, M. H. (2009). *No harm, no foul: The outcome bias in ethical judgments*. Retrieved November 1, 2010, from Harvard Business School: http://www.hbs.edu/research/pdf/08-080.pdf

- Gino, F., Norton, M., & Ariely, D. (2010). The counterfeit self: The deceptive costs of faking it. *Psychological Science*, 715-720.
- Gino, F., Norton, M., & Ariely, D. (2010). The counterfeit self: The deceptive costs of faking it. *Psychological Science, 21(5)*, 712-720.
- Gioia, D. A. (1992). Pinto Fires and Personal Ethics: A Script Analysis of Missed Opportunities. *Journal of Business Ethics 11*, 379–389.
- Green, A. J., & Gilhooly, K. J. (2005). Problem solving. In I. N. Braisby, & Gellatly, *Cognitive Psychology.* UK: Oxford University Press.
- Greene, J. (2009). Dual-process morality and the personal/impersonal distinction: A reply to McGuire, Langdon, Coltheart, and Mackenzie. *Journal of Experimental Social Psychology Vol. 45 (3)*, 581-584.
- Greene, J. (2010). *Research and Background*. Retrieved May 10, 2011, from http://www.wjh.harvard.edu/~jgreene/
- Greene, J. D. (2009). *The Cognitive Neuroscience of Moral Judgment.* Cambridge, MA: MIT Press.
- Haidt, J. (2001). The Emotional Dog and Its Rational Tail: A Social Intuitionist Approach to Moral Judgment. *Psychological Review, 108*, 814-834.
- Haidt, J. (2008). *Jonathan Haidt on the moral roots of liberals and conservatives*. Retrieved May 19, 2010, from http://www.ted.com/talks/jonathan_haidt_on_the_moral_mind.html
- Heidegger, M. (1927). *Being and Time.* Albany: State University of New York Press.
- Hendry, J. (2004). *Between enterprise and ethics - business and management in a bimoral society.* Oxford Unversity Press.
- Higgins, E. T. (1996). Knowledge activation - Accessibility, applicability, and salience. In E. Higgins, & A. Kruglanski, *Social psychology: Handbook of basic principles* (pp. 133–168). New York: Guilford Press.
- Hill, C. (2006). *Global business today.* Boston: McGraw-Hill.
- Hoffman, M. (2001). *Empathy and Moral Development: Implications for Caring and Justice.* Boston: Cambridge University Press.
- Hunt, S. D., & Vitell, S. (1986). A General Theory of Marketing Ethics. *Journal of Macromarketing*, 5-15.

- Jones, T. (1991). Ethical Decision Making by Individuals in Organizations: An Issue Contingent Model. *Academy of Management Review*, 366-395.

- Jordan, J. (2009). A Social Cognition Framework for Examining Moral Awareness in Managers and Academics. *Journal of Business Ethics, 84*, 237-258.

- Kahneman, D. (2002, December 8). *Maps of bounded rationality*. Retrieved May 10, 2010, from Prize Lecture, December 8, 2002: http://nobelprize.org/nobel_prizes/economics/laureates/2002/kahnemann-lecture.pdf

- Kahneman, D., & Frederick, S. (2002). Representativeness revisited: Attribute substitution in intuitive judgment. In G. T., D. Griffin, & D. Kahneman, *Heuristics and Biases* (pp. 49-81). New York: Cambridge University Press.

- Kahneman, D., & Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. *Econometrica, Vol. 47, No. 2.*, 263-292.

- Kanungo, R., & Mendonça, M. (1996). *Ethical dimensions of leadership.* Thousand Oaks: Sage Publications.

- Keltner, D., Langner, C. A., & Allison, M. L. (2006). Power and Moral Leadership. In D. Rhode, *Moral leadership: The theory and practice of power, judgment and policy, Warren Bennis Signatures Series* (pp. 177-194). San Francisco: Jossey-Bass.

- Keynes, J. M. (1936). *The General Theory of Employment, Interest and Money.* New York: Macmillan Cambridge University Press.

- Kilmann, R. H. (1979). Problem Management: A Behavioral Science Approach. In Z. G., *Management Principles for Nonprofit Agencies and Organizations* (pp. 213-255). New York: American Management Association.

- Klein, G. (1998). *Sources of power: How people make decisions. Cam-.* Cambridge: MIT Press.

- Kline, J. (2005). *Ethics for international business : decision making in a global political economy.* London: Routledge.

- Kohavi, R. (2008). *Semmelweis – Background.* Retrieved October 10, 2010, from http://exp-platform.com/Documents/semmelweisReflex.pdf

- Kohlberg, L. (1981). *The Philosophy of Moral Development: Moral Stages and the Idea of Justice.* San Francisco: Harper & Row.

- Kolb, A., & Kolb, A. (2005). Learning Styles and Learning Spaces: Enhancing Experiential Learning in Higher Education. *Academy of Management Learning & Education Vol. 4, No. 2*, 193–212.

- Kolb, A., & Kolb, D. (2009). Experiential learning theory: A dynamic, holistic approach to management learning, education and development. In S. J. Armstrong, & C. Fukami, *Handbook of Management Learning, Education and Development.* London: Sage Publications.

- Kolstad, I. (2009). Human rights and assigned duties: Implications for corporations. *Human Rights Review*, 569-582.

- Lewis, H. (2006). *Excellence Without a Soul: How a Great University Forgot Education.* Boston: PublicAffairs.

- Loe, T. W., Ferrell, L., & Mansfield, P. (2000). A Review of Empirical Studies Assessing Ethical Decision Making in Business. *Journal of Business Ethics 25*, 185-204.

- Luban, D. (2006). Beyond Moral Minimalism. *Ethics & International Affairs*, 353-360.

- MacDonald, C. (2002). Charitable Conflicts of Interest. *Journal of Business Ethics*, 67-74.

- Marnburg, E. (2001). The Questionable Use of Moral Development Theory in Studies of Business Ethics: Discussionand Empirical Findings. *Journal of Business Ethics*, 275–283.

- Martin, C. (. (1997). *Looking at Type: The fundamentals.* Gainesville, FL: Center for Applications of Psychological Type, Inc.

- McCoy, B. H. (2007). *Living into leadership : a journey in ethics.* Stanford: Stanford Business Books.

- McManus, R. (2004, April 13). *Intuition vs. Reason, Nobel Laureate Kahneman Posits Two Forms of Thought in WALS Talk*. Retrieved May 11, 2010, from http://nihrecord.od.nih.gov/newsletters/04_13_2004/story02.htm

- Messick, D. (2006). Ethical Judgement and Moral leadership. In D. L. Rhode, *Moral leadership: the theory and practice of power, judgment, and policy* (p. 95ff). New York: Wiley.

- Milkman, K. L., Chugh, D., & Bazerman, M. (2008, June). *How Can Decision Making Be Improved?* Retrieved May 10, 2011, from No 08-102, Harvard Business School Working Papers: http://www.hbs.edu/research/pdf/08-102.pdf

- Milkman, K. L., Rogers, T., & Bazerman, M. H. (2007). *Harnessing Our Inner Angels and Demons: What We Have Learned About Want/Should Conflicts and How That Knowledge Can Help Us Reduce Short-Sighted Decision Making*. Retrieved November 21, 2010, from Harvard University: http://www.people.hbs.edu/mbazerman/Papers/08-020.pdf

- Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts. *Academy of Management Review (Academy of Management) 22 (4)*, 853–886.

- Mitroff, I. (1998). Smart Thinking for Crazy Times: The Art of Solving the Right Problems. In a. K. Christine M. Pearson, *The Management of Crises and Paradoxes: Preventing the Destructive Effects of Organizations (in French)*. New York: Oxford University Press.

- Mitroff, I. (2004). An Open Letter to the Deans and the Faculties of American Business Schools. *Journal of Business Ethics, 54 (2)*, 185-189.

- Mitroff, I. (2004). An Open Letter to the Deans and the Faculties of American Business Schools. *Journal of Business Ethics*, 185-189.

- Molinsky, A., & Margolis, J. D. (2006). The Emotional Tightrope of Downsizing: Hidden Challenges for Leaders and Their Organizations. *Organizational Dynamics*, 145-159.

- Monin, B., & Jordan, A. (2009). Dynamic moral identity: A social psychological perspective. In D. Narvaez, & D. Lapsle, *Personality, Identity, and Character: Explorations in Moral Psychology* (pp. 341-354). Boston: Cambridge University Press.

- Montier, J. (2007). *Behavioural investing: a practitioner's guide to applying behavioural finance.* New York: Wiley.

- Moore, D., & Lowenstein, G. (2004). Self-interest, automaticity, and the psychology of conflict of interest. *Social Justice Research, 17(2)*, 189-202.

- Moran, S., Bereby-Meyer, Y., & Bazerman, M. (2008). Stretching the effectiveness of analogical training in negotiations. *Negotiation & Conflict Management Research, 1(2)*, 99-134.

- Morsing, M., & Pruzan, P. (2006). Values-based Leadership. In L. Zsolnai, *Ethics in the Economy - The Handbook of business ethics.*Oxford, Bern, Berlin, Bruxelles, Frankfurt am Main, New York, Wien: Peter Lang.

- Nagel, T. (2011, March 11). *David Brooks's Theory of Human Nature*. Retrieved April 25, 2011, from The New York Times: http://www.nytimes.com/2011/03/13/books/review/book-review-the-social-animal-by-david-brooks.html

- Nelson, D. R., & Obremski, T. (1990). Promoting moral growth through intra-group participation. *Journal of Business Ethics*.

- Nobel Foundation. (2002, October 9). *Press Release*. Retrieved May 2010, 2010, from http://nobelprize.org/nobel_prizes/economics/laureates/2002/press.html

- Nosek, B. A., Greenwald, A. G., & Banaji, M. R. (2007). The Implicit Association Test at age 7: A methodological and conceptual review. In J. A. Bargh, *Automatic processes in social thinking and behavior* (pp. 265–292). Psychology Press.

- Nyeng, F. (2007). *A not very American perspective on Corporate Social Responsibility.* Cappelen.

- Painter-Morland, M. (2008). *Business Ethics as Practice.* Cambridge University Press.

- Patterson, D. M. (2001). Causal effects of regulatory, organizational and personal factors on ethical sensitivity. *Journal of Business Ethics 30 (2)*, 123–159.

- Perdersen, L. J. (2009). *Making Sense of Sensitivity: Moral Sensitivity and Problem Formulation in Business.* Bergen: NHH.

- Pettifor, R. A., Caldow, R. W., & Rowcliffe, J. M. (2000). Spatially explicit, individually-based models of the annual cycle of two migratory goose populations. *Journal of Applied Ecology 37 (S1)*, 103-135.

- Pew Research Center for the People & the Press. (1998, June 2). Popular Policies and Unpopular Press Lift Clinton Ratings. News release.

- Piaget, J. (1932). *The Moral Judgement of the Child.* New York: Harcourt, Brace Jovanovich.

- Piper, T. R., Gentile, M. C., & Parks, S. D. (1993). *Can Ethics Be Taught?* Boston, Massachusetts: President and Fellows of Harvard College.

- Psychology Today. (2010). *Psychology Today.* Retrieved May 10, 2011, from Bias: http://www.psychologytoday.com/basics/bias

- Quinn, V. N. (1995). *Applying psychology.* New York: McGraw-Hill.

- Random House Inc. (1987). *The Random House Dictionary of the English Language, Unabridged.* New York: Random.

- Rest, J. (1986). *Moral Development: Advances in Research and Theory.* New York: New York.

- Rest, J., Narvaez, D., Bebeau, M., & Thoma, S. (1999). *Postconventional Moral Thinking: A Neo-Kohlbergian Approach.* Lawrence Erlbaum.

- Reynolds, S. (2008). Moral attentiveness: Who pays attention to the moral aspects of life? *Journal of Applied Psychology*, 1027-1041.

- Reynolds, S., & Ceranic, T. (2009). On the causes and conditions of moral behavior: Why is this all we know? In D. De Cremer, *Psychological perspectives on ethical behavior and decision making* (pp. 17-35). IAP.

- Rhode, D. (2006). *Moral leadership : the theory and practice of power, judgment, and policy.* San Francisco: Jossey-Bass.

- Ritter, B. A. (2006). Can business ethics be trained? A study of the ethical decision making process in business students. *Journal of Business Ethics*, 153-164.

- Robbins, R., & Wallace, W. (2006). *A Computational Model of a Group of Individuals Resolving an Ethical Dilemma - Virtual Experiments.* Pittsburgh: Institute for Operations Research and the Management Sciences Annual Meeting.

- Robbins, R., Wallace, W., & Puka, B. (2003). *The Ethical Assistant: A Decision Aid for. Ethical Problem Solving.* Boston: International Society for Ethics and Information Technology.

- Robinson, S. K. (2007). Retrieved June 6, 2010, from Ted: http://www.ted.com/talks/ken_robinson_says_schools_kill_creativity.html

- Rokeach, M. (1973). *The Nature of Human Values.* New York: Free Press.

- Ruedy, N., & Schweitzer, M. (2010). In the Moment: The Effect of Mindfulness on Ethical Decision Making. *Journal of Business Ethics*.
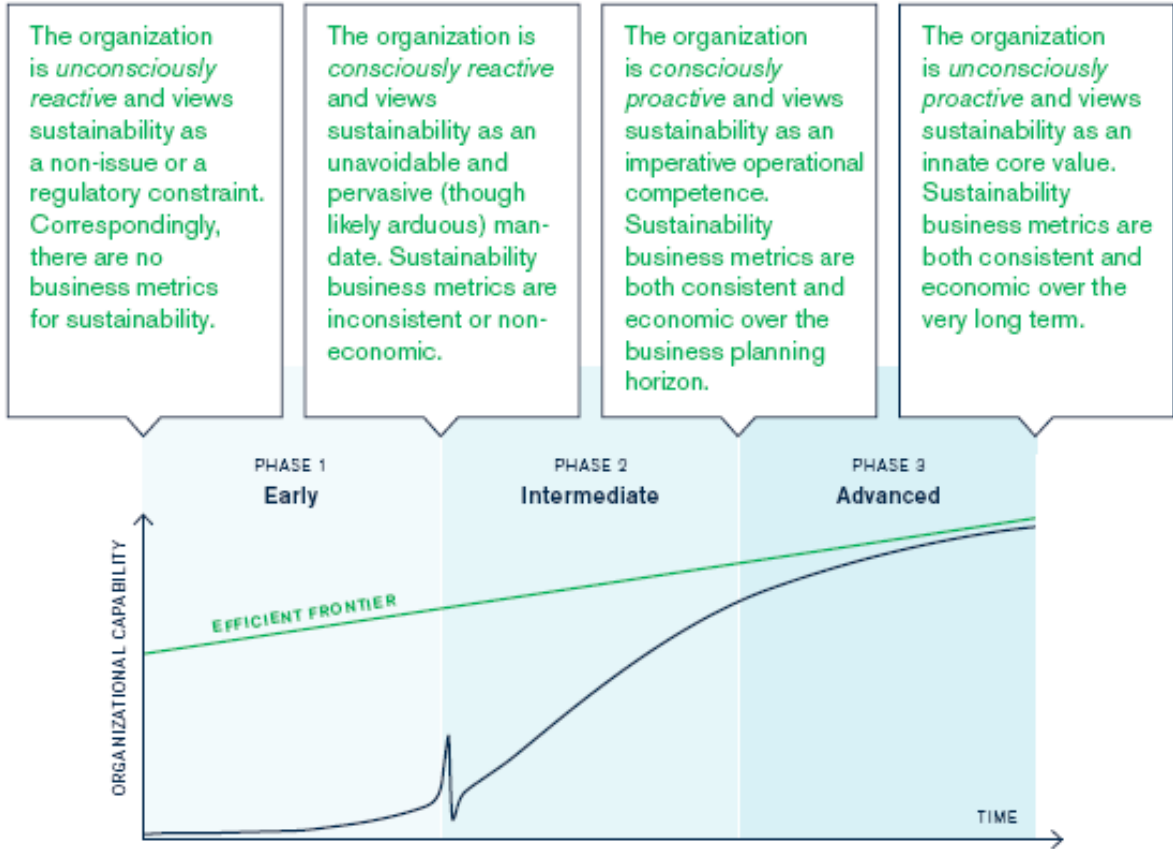
- Seiler, S., Fischer, A., & Ooi, Y. P. (2010). *An Interactional Dual-Process Model of Moral Decision Making to Guide Military Training.* Swiss Military Academy at ETH Zurich.

- Shiller, R. J. (2010). *Irrational Exuberance.* New York: Broadway.

- Shionoya, Y. (2005). *Economy and morality : the philosophy of the welfare state.* Cheltenham: Edward Elgar.

- Shiv, B., & Fedorikhin, A. (1999). Heart and mind in conflict: The interplay of affect and cognition in consumer decision making. *Journal of Consumer Research, 26(3)*, 278-292.

- Shu, L. L., Gino, F., & Bazerman, M. (2011). Ethical Discrepancy: Changing Our Attitudes to Resolve Moral Dissonance. In D. De Cremer, & A. E. Tenbrunsel, *Behavioral Business Ethics: Ideas on an Emerging Field.* Taylor and Francis Publishing.

- Simon, H. (1957). *A Behavioral Model of Rational Choice.* New York: Wiley.

- Sims, R., & Sauer, W. (1985). Guiding principles for the developmentof competency-based business curricula. *Journal of Management Development*, 51-64.

- Sparks, J. R., & Hunt, S. D. (1998). Market Researcher Ethical Sensitivity - Conceptualization, Measurement, and Exploratory Investigation,. *Journal of Marketing*, 92-109.

- Stanford Encyclopedia of Philosophy. (2007, July 18). *Virtue Ethics*. Retrieved October 26, 2011, from http://plato.stanford.edu/entries/ethics-virtue/

- Stanovich, K. E., & West, R. F. (2000). Individual differences in reasoning: Implications for the rationality debate? *Behavioral and Brain Sciences, 23*, 645-726.

- Sunstein, C., & Thaler, R. (2003). Libertarian paternalism is not an oxymoron. *University of Chicago Law Review, 70 (Fall)*, 1159-99.

- Tenbrunsel, A. E., & Messick, D. M. (2004). Ethical fading: The role of self deception in unethical behavior. *Social Justice Research 17(2)*, 223-236.

- Tenbrunsel, A. E., & Smith-Crowe, K. (2008). Ethical decision making: Where we've been and where we're going. *The Academy of Management Annals, 2*, 545-607.

- Thompson, L., Gentner, D., & Loewenstein, J. (2000). Avoiding missed opportunities in managerial life: Analogical training more powerful than individual case training. *Organizational Behavior & Human Decision Processes, 82(1)*, 60-75.

- Treviño, L. (1986). Ethical Decision Making in Organizations: A Person-Situation Interactionist Model. *Academy of Management Review 11, 3*, 601-617.

- Treviño, L. K., Weaver, G. R., & Reynolds, S. (2006). Behavioral ethics in organizations - A review. *Journal of Management 32(6)*, 951-990.

- Trevino, L.-K., & Youngblood, S. A. (1990). Bad apples in bad barrels: a causal analysis of ethical decision-making behavior. *Journal of Applied Psychology*, 378 - 385.

- Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *Science 185(4157)*, 1124-1131.

- Ulrich, P. (2002). Ethics and Economics. In L. Zsolnai, *Ethics in the Economy.* Bern: Peter Lang.

- UPS. (2007). *Community Internship Program.* Retrieved Jan 17, 2010, from UPS: http://www.community.ups.com/Community/Community+Internship+Program

- van Aerssen, B. (2010). *Kreativität ist erlernbar.* Retrieved October 10, 2010, from zeit.de: http://www.zeit.de/karriere/beruf/2010-09/kreativtechniken-uebersicht

- Velasquez, M. (2002). *Business Ethics: Concepts and Cases.* New York: Prentice Hall.

- Weaver, K., Morse, J., & Mitcham, C. (2008). Ethical sensitivity in professional practice: concept analysis. *Journal of Advanced Nursing*, 607-618.

- Zsolnai, L. (2002). Ethical Decision Making. In Zsolnai, *Ethics in the Economy:Handbook of Business Ethics.* Bern: Peter Lang.

- Zsolnai, L. (2002). Ethical Decision Making. In L. Zsolnai, *Ethics in the Economy:Handbook of Business Ethics.* Bern: Peter Lang.

- Zsolnai, L. (2004). An Open Letter to the Deans and the Faculties of American Business Schools. In I. Mitroff, *Journal of Business Ethics 54 (2)* (pp. 185 - 189).

- Zsolnai, L., & Tencati, A. (2009). *The Future International Manager: A Vision of the Roles and Duties of Management.* Palgrave.

Appendix

Figure 1 **Phases of Organizational Capability**

Challenges and Competencies

| The organization is *unconsciously reactive* and views sustainability as a non-issue or a regulatory constraint. Correspondingly, there are no business metrics for sustainability. | The organization is *consciously reactive* and views sustainability as an unavoidable and pervasive (though likely arduous) man-date. Sustainability business metrics are inconsistent or non-economic. | The organization is *consciously proactive* and views sustainability as an imperative operational competence. Sustainability business metrics are both consistent and economic over the business planning horizon. | The organization is *unconsciously proactive* and views sustainability as an innate core value. Sustainability business metrics are both consistent and economic over the very long term. |

PHASE 1 — Early · PHASE 2 — Intermediate · PHASE 3 — Advanced

ORGANIZATIONAL CAPABILITY

EFFICIENT FRONTIER

TIME

Vernacular	Data → Information → Knowledge → Insight → Foresight
Systemic Challenge	**Create Sustainability Vision** • Cultivate receptiveness • Persistently build business case and metrics	**Translate Vision into Action** • Embed sustainability for operational impact • Relinquish central control	**Anticipate Future Needs** • Build long-term partnerships • Foster innovation
Key Executive Competencies	• Change Leadership • Collaboration & Influencing	• Results Delivery • Commercial Orientation	• Strategic Orientation • Commercial Orientation

135