

Introduction to Business Ethics: (Psychological) Foundations and tools of Business Ethics

18. January 2023

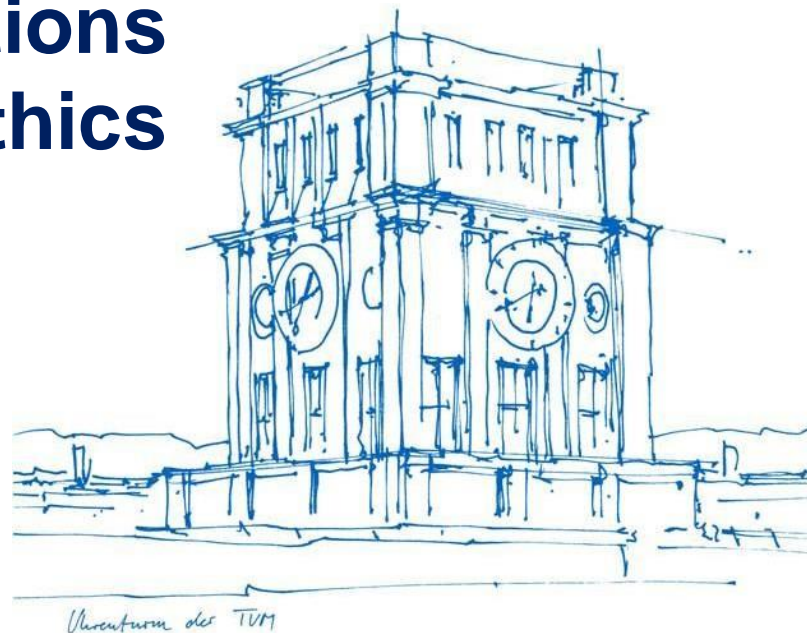
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Prof. Dr. Christoph Lütge | Introduction to Business Ethics | WS 22/23



Focus of today

Introduction

Chapter 1: Business Ethics in the Age of Globalization

Chapter 2: Basic Concepts

Chapter 3: Historical-economic Background: Premodernity and Modernity

Chapter 4: Foundations and Tools of Business Ethics

➤ **Psychological foundations and tools**

Chapter 5: Problem Areas of Business Ethics

Chapter 6: Corporate Ethics

Introduction (1)

The study of human morality is highly interdisciplinary (Doris, 2013).

- Philosophy as a starting point.
- Psychology: Initially due to mental processes science. Moral psychology becomes an experimental/empirical field of research.

= Philosophy has been argued to be light on facts, and psychology to be light on theory.

Introduction (2)

A change in the late 1960s (Doris, 2013).

- On the one hand, morality in philosophy is influenced by naturalism and cognitive science when it comes to epistemology and philosophy of mind.
- On the other hand, psychology sees the end of behaviorism and the rise of empirical research, including towards philosophical topics.

= In this lecture, we will trace important insights of moral psychology for business ethics.

The Behavioral Approach to Ethics (1)

Traditional Ethics: Assumption that once a person has understood what is right or wrong, they act accordingly.

Schwitzgebel (2009):

- Across 31 libraries in the US and UK, ethics books are more likely to be stolen than other philosophical books of similar popularity and age.
- Even more frequent for advanced texts of interest to graduate students and professors.

Thus, there seems to be more to it than simple knowledge. There seems to be a **deliberation**.

The Behavioral Approach to Ethics (2)

Kohlberg (1984): Stages of Moral Development Theory

- Building on interviews based on 10 moral dilemmas done with 72 Chicago boys ages 10 to 16; 58 of whom were followed up at three-early intervals for 20 years.
- Kohlberg asked the children to give a reason for their moral dilemma decisions. He found that, with age, the reasoning changed.
- He identified 3 stages of moral reasoning development:
Preconventional, Conventional and Postconventional Morality.

The Behavioral Approach to Ethics (3)

Kohlberg (1984): Stages of Moral Development Theory

Preconventional Morality

Stage 1: Obedience &
Punishment Orientation

Stage 2: Individualism and
Exchange

Conventional Morality

Stage 3: Good Inter-
personal Relationships

Stage 4: Maintaining the
Social Order

Postconventional Morality

Stage 5: Social Contract
and Individual Rights

Stage 6: Universal
Principles

The Behavioral Approach to Ethics (4)

Kohlberg (1984) Theory = Morality would develop with age to become a stable character trait.

Critic from Bazerman and Gino (2012)

- Normative & prescriptive approach to ethics: how people should act when resolving ethical dilemma.
- Business ethics: moral evaluation of practices of people within corporations (Bazerman & Gino, 2012)

= Kohlberg's work is insufficient to understand how ethical dilemmas are actually solved, especially in the context of improving ethicality in organizations.

The Behavioral Approach to Ethics (5)

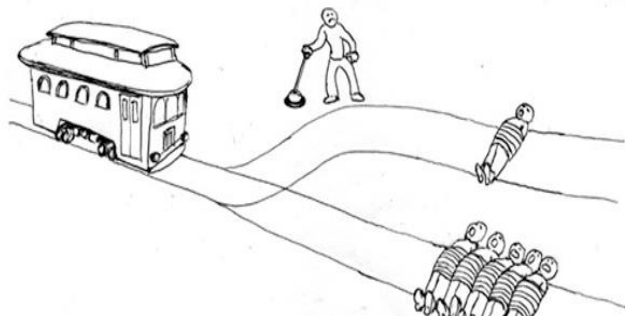
Utilitarian Theory: an act is considered moral if, compared to possible alternatives, it provides the greatest good for the greatest number of people.

Deontological Theory: No matter how morally good or bad the consequences, some choices are morally forbidden.

e.g., Kant's categorical imperative that humans should never be regarded as means to an end.

The Behavioral Approach to Ethics (6)

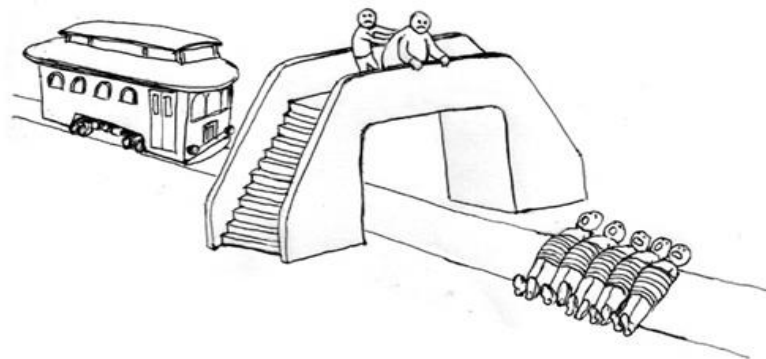
Trolley Problem (“Switch”)



A Utilitarian Answer:

The clear majority of respondents feel like it is morally acceptable to use the switch and kill only one worker over five.

Trolley Problem (“Footbridge”)



A Deontological Answer:

The clear majority of respondents feel like it is morally acceptable to use the switch and kill only one worker over five.

The Behavioral Approach to Ethics (6)

Doctrine of Double Effect = Doctrine of Side Effect

→ There is a line between harm that is caused as a means to an end, and harm that is caused as a side effect.

Footbridge dilemma: without the human to sacrifice on the rail, there would be no trolley stopper.

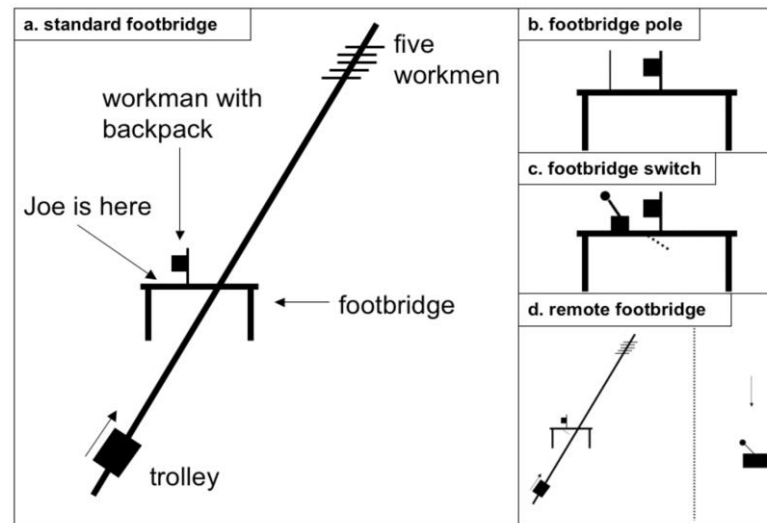
- Deontological answer (Kant): humans should never be used as a means to an end – means to an end.
- Utilitarian answer: there is only one choice: one or five human die – side effect.

= Are any responses to the trolley problems morally justifiable?

The Behavioral Approach to Ethics (7)

Greene (2014): Remote Footbridge

- A railway worker with a backpack stands on the footbridge under which the trolley will run.
- The bystander is standing at some distance from the footbridge at a distance.
- Hitting the switch will open a trapdoor through which the railway worker falls onto to stop the train.



The Behavioral Approach to Ethics (8)

Greene (2014): Remote Footbridge

- Approval rate of hitting the switch from 31% in footbridge to 63% in remote footbridge.
- If the physical mechanism should not matter ethically, it matters psychologically.

Thus, **our intuition** in this dilemmas are not only influenced by the ethically relevant means/side-effect distinction that many of us may find reasonable, but also by a **distinction of physical distance** that most of us probably find rather dubious.

The Behavioral Approach to Ethics (9)

What are factors of a behavioral approach to ethics?

- **Behaviors are prone to incentives**: behavioral ethics looks at how people actually behave, assuming people can act contrary to their best ethical intentions. Thus, it focuses on psychological factors in moral decision-making processes, which are highly situational.
- **Unintentional cognitive drivers** of unethical behaviors explain our inconsistent ethical behavior (Bazerman & Tenbrunsel, 2011). They are predictable patterns that can be understood and therefor addressed. Thus, behavioral ethics regards how people take moral decisions and not how they are supposed to behave in an ideal world.

The Behavioral Approach to Ethics (10)

What are factors of a behavioral approach to ethics?

- **Bounded rationality** in the domain of ethics evaluates unethical behavior that arise **without intentionality** (Simon, 1997).
- It looks at the ethically problematic behavior that is inconstant with the ethics that the people engaged in this behavior prefer for themselves.
- Thus, it is according the decision maker's own standards, and not the external standards of an observer that the ethical behavior is bounded.

Dual Process Theory (1)

→ How thoughts can arise in two different ways, or as a result of **two different processes**, called here System 1 and System 2 (Kahneman, 2011).

System 1 – Intuitive

- Automatic
- Quick
- Effortless
- Emotional

Relates to: impulses, habits, beliefs...

System 2 - Questioning

- Requires Attention
- Slow
- Effortful
- Logical

Relates to: reflection, planning, problem solving...
Monitor and Control thoughts and actions suggested by System 1.

Dual Process Theory (2)

The “Bat-and-Ball Problem”: what happens when System 2 is lazy (Kahneman, 2011).

“A bat and ball cost \$1.10. The bat costs one dollar more than the ball. How much does the ball cost?”

Dual Process Theory (2)

The “Bat-and-Ball Problem”: what happens when System 2 is lazy (Kahneman, 2011).

“A bat and ball cost \$1.10. The bat costs one dollar more than the ball. How much does the ball cost?”

Appealing & intuitive answer: 10cents. Correct answer: 5cents.

- If you gave the right answer, you might have been able to resist the temptation to follow the **rule of least effort** and might have a more active mind.
- If you gave the wrong answer, know that over 50% of participants from Harvard, MIT and Princeton did as well.

Dual Process Theory (3)

Kahneman (2011) concludes:

- People trust their intuition too much and find cognitive effort more than unpleasant.
- Understanding the relevance of System 1 for our thinking is important, and can sensitize us for logical and ethical errors.
- **Moral heuristics to ethical problems:** System 1 intuitive responses to moral problem.
- Acknowledging the role of our intuitive responses for moral judgement is central to behavioral ethics.

Dual Process Theory (4)

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Acknowledging the role of our intuitive responses for moral judgement is central to behavioral ethics.

The Social Intuitionism Model to Moral Judgement (1)

The Rationalist Approach (Kohlberg, 1969; Piaget, 1965; Turiel 1983)

- ⇒ Moral judgement are reached by reasoning + reflection.
- Moral emotions may feed into the reasoning process.
- Reject the idea that emotions are the direct causes of the moral judgement.

Weighing of right vs. wrong, benefit vs. harm, fairness vs. unfairness.

→ Reach a well calibrated judgement.

The Social Intuitionism Model to Moral Judgement (2)

The Rationalist Approach (Kohlberg, 1969; Piaget, 1965; Turiel 1983)

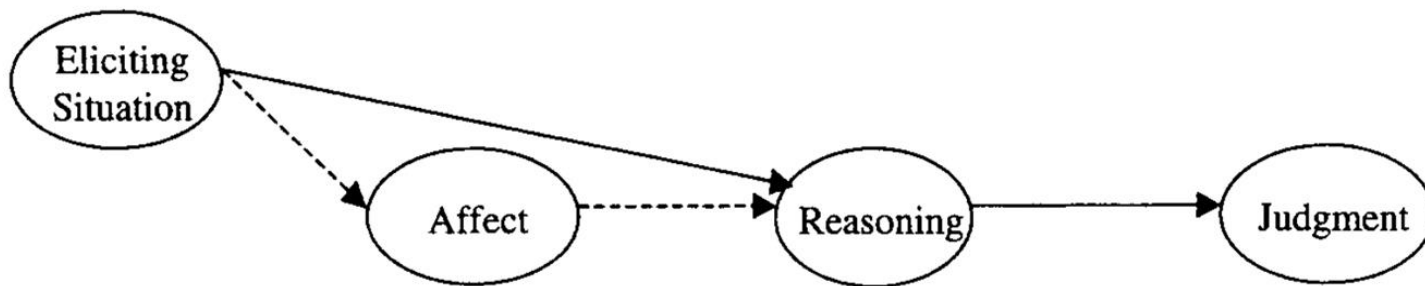


Figure 1. The rationalist model of moral judgment. Moral affects such as sympathy may sometimes be inputs to moral reasoning.

The Social Intuitionism Model to Moral Judgement (3)

The Social Intuitionism Model (Haidt, 2001)

⇒ Emotional reaction precedes moral reasoning.

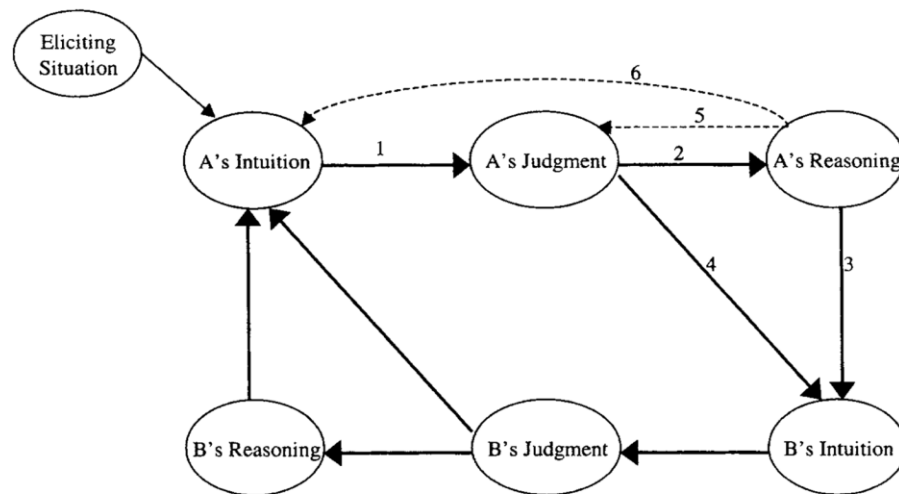
- Emphasises the importance of social and cultural influences on moral judgement.
- Deemphasises the role of private reasoning done by individuals.

→ Intuitionist because moral judgements are generally the result of quick and automatic (intuitive) evaluations. Those are followed by slow *ex post facto* moral reasoning.

The Social Intuitionism Model to Moral Judgement (4)

The Social Intuitionism Model (Haidt, 2001)

The numbered links drawn from Person A only are (1) the intuitive judgement link, (2) the post hoc reasoning link, (3) the reasoned persuasion link, and (4) the social persuasion link. Two additional links are hypothesised to occur less frequently: (5) the reasoned judgement link and (6) the private reflection link.



The Social Intuitionism Model to Moral Judgement (5)

The Social Intuitionism Model - Conclusions (Haidt, 2001)

- Rationalists models made sense in the 60s and 70s when the cognitive revolution thought about moral judgement as a form of information processing.
- Since then, evidence show that most cognition occurs automatically, and moral judgements happen outside of our consciousness.
- People usually cannot explain how they really arrive at a particular moral judgement.

The Limits of Reason for Moral Judgements (1)

Reasons to doubt the causal importance of reason for moral behavior (Haidt 2001)

- There is evidence supporting **dual process models in moral judgement making**. In this case, System 1 is involved based on automatic processes. Regarding first sight impressions (Albright et al., 1988), people seemed to keep a constant attitude towards a specific group from first sight to later on (Ambady & Rosenthal, 1992).
- The problem of **motivated reasoning** suggests that a post hoc reasoning is more important than a reasoned judgement and a private reflection. People would thus be more likely to arrive at their desired conclusion, while this ability is constrained by their ability to come up with reasonable justification (Kunda, 1990).

The Limits of Reason for Moral Judgements (2)

Reasons to doubt the causal importance of reason for moral behavior (Haidt 2001)

- People, post hoc, generate **causal explanations** out of a priori causal theory, such as social norms culturally transmitted supporting the evaluation of other people's behavior.
- The final reason relates to focusing on moral behavior instead of moral judgement. Strong evidence on psychopaths who understand harmful consequences of actions but do not care highlight that moral reasoning matters less for moral actions than **moral emotions**.

Boundedly Ethical Decision Making (1)

- The ability to make ethical choices is limited because of external factors.

Bazerman & Tenbrunsel (2011): in-group favouritism.

- A professor at a prestigious university gets a call from a long-lost friend and is asked to introduce the friends' child to the director of admission. The outcome is usually that the professor will follow through due to the unpleasantness to tell a friend it is impossible to help them.
- Most of us are intuitively comfortable with doing favours for those with whom we identify with. It is not the result of an immoral intention, but the result on focusing on being “nice” to those who are like us.

Boundedly Ethical Decision Making (2)

Decision Making Process:

- The "want/should" distinction explicitly captures the intra-personal conflicts within a human mind (Bazerman et al., 1998) and thus justifies the idea of multitude of self conceptions triggered in different contexts when it comes to decision making (Kivetz & Tyler, 2007).
- The "Should" is based on prediction and remembrance.

Before

Possible Misperception:
Misprediction

During

After

Possible Misperception:
Misremembrance

Before the Decision: Prediction Error

- **Prediction errors** is the human tendency to make inaccurate predictions about how one will behave in a future situation. Humans underestimate the impact that **visceral factors** (emotions, drives, and cravings) have on future behavior (Lowenstein).
- **Hot-to-Cold Empathy Gap**: tendency to consider our desires in emotional states as being more stable than they actually are. An intense desire to act in the moment might evaporate after a “cool off period”.
- We have a tendency to predict our behavior as **more compatible with our ethics** than it will actually be, leading to prediction error. Interestingly, this does not apply to our estimation of other peoples’ behavior (Epley & Dunning, 2000).

During the Decision: Ethical Fading

Ethical fading – should/want (Tenbrunsel & Messick, 2004):

- The “**want**” takes over and the decision-maker is unaware of ethical implications of their decisions which leads to the neglect of ethical criteria for the decision.
 - When judging others ethical behavior, the “**should**” activates over the “want”, and we think we might have acted differently than the person.
- Our predictions of our own ethical behavior are bad because we predict according to the “should” (abstract concepts, moral reasoning) but the “want” (visceral response) usually wins.

After the Decision: Selective Memory (1)

Being “revisionist historians” (Bazerman & Tenbrunsel, 2011):

- When evaluating the ethical implications of our actions, we take distance from the want and base our moral reasoning on the should.
- If faced with a mismatch between our self-image and our unethical behavior, our memory can become selective to describe best the self-depiction we desire.
- We find ways to spin the unethical behavior by rationalising our role in a given situation, interpreting our actions in a more favourable light, or by redefining what is ethical.

After the Decision: Selective Memory (2)

Omission Bias (Tenbrunsel et al., 2010):

- Tendency to believe acts of omission to be morally superior to acts of commission.
- In a context of injustice, we predict that we will have the courage to speak up against injustice, but when the time comes, we often remain silent.
- When recollecting such lack of action, we allow ourselves to believe we were not unethical because we did not create additional harm.

Boundedly Ethical Decision Making

Before

The Should

- Prediction Error
- Hot-to-Cold empathy gap

During

The Want

- Ethical Fading
- When judging others behavior, the “should” takes over.

After

The Moral Reasoning

- Revisionist Historian
- Omission Bias

Bounded Ethicality in Organisations

The normative approach: Traditionally, the study of business ethics have been based on what managers and employees “**should**” do. This reflects in the popularity of companies’ codes of conducts and moral guidelines (De Cremer & Tenbrunsel, 2011).

- The assumption that people behave rationally and purposively and are aware of their actions’ implications means that business scandals are the result of few bad apples. This misses the impact of the **circumstances** and **psychological processes** underlying an ethical behavior.
- Designing environments in which behaving ethically is easier would probably work better than banning unethical behavior (Dana et al., 2011).

Diffusion of Responsibility (1)

- People have a preference for **sharing responsibility in an ethically difficult decision** (Dana et al., 2011).
- Unethical behavior does not occur because people want to be unethical, but because they want to be truly ethical and go through the costly process of behaving unethically when no-one but themselves would punish them.
- Sharing responsibility allow people to take actions that they would eschew if they were acting unilaterally.

Diffusion of Responsibility (2)

→ People have a preference for sharing responsibility in an ethically difficult decision (Dana et al., 2011).

Vertically

When intermediaries exist and may take over the “dirty work”.

Ex: Outsourcing certain functions to a subcontractor that pays its employees wages below standard firm.

Horizontally

When people fail to behave ethically, because they count on others to do so on their behalf.

Ex: Bystander Effect in which people fail to help another person when others are present but do not do so when alone.

Diffusion of Responsibility (3)

Principal Agents Relationships – Vertical (Hamman et al., 2010)

- Principal agents repeatedly decide how much money to share with a recipient or hire agent to make sharing decisions on their behalf.
- When hiring agents, the sharing was usually reduced.
- Principal agents in this case would not feel like having taken unethical decisions because they were simply hiring people to take the decision for them.

Diffusion of Responsibility (5)

Horizontal Diffusion (Dana et al., 2007)

- Two decision maker had a binary choice between a fair outcome for themselves and a possible bystander, and an inequitable outcome that benefited the two decision makers but harmed the third party.
- The inequitable outcome was implemented **only** if both decision maker choose it. Thus: if one decision maker choose the “fair” outcome, this could be implemented unilaterally. But if choosing the “unfair” outcome, responsibility was split between both actors.
- When given the choice, twice as many decision maker decided to go for the “unfair option”.

The Influence of Unethical Others (1)

- In social contexts, such as organisations, other people's behavior will influence our own ethical conduct (Shu et al., 2011).

Gino et al (2009) define **three ways** in which other's unethical behavior can influence our own ethical behavior:

- **Changing our cost-benefit analysis of the unethical behavior.** Becker (1968) posits that in observing other people get away with unethical conduct may change our beliefs regarding likelihood of getting caught and the cost of such behavior. Thus, leading to assume benefits for the behavior, making it more attractive.

The Influence of Unethical Others (2)

- **Attention on Internal Standards of Honesty:** Mazar et al. (2008) lead an experiment in which an experimental group is being reminded of moral principles before making a decision, while the control group isn't. When making the decision, the experimental group reduced significantly their level of cheating for financial gains as compared to the control group.
- **Norm-focus Theory:** Cialdini et al. (1990) state that two types of norms will impact ethical behaviors: injunctive norms, which make specification on how one ought to behave, and descriptive norms, specifying what is actually done. Both can exist simultaneously.

Crowding-out Effects Through Organizational Measures (1)

The Hidden Cost of Control:

- Tenbrunsel & Messick (1999) report that weak sanctions intended to increase ethical behavior actually reduce it. The ethical behavior is “crowded out”.
- Falk & Kosfeld (2006) show that implementing minimum performance requirement induces the agent to reduce performance.

Example: implementing fine in daycare when picking up children late (Gneezy & Rustichini, 2000).

The decision to arrive late went from an ethical to a business decision because of the financial aspect of the transaction. The number of parents coming late did not reduce.

Crowding-out Effects Through Organizational Measures (2)

Transactional Behavior vs. Ethical Behavior:

- Samuel Bowles (2016) argues that people's preferences are not always stable. They are dependent on the frame put around them: ethical to financial for example.
- When successful, incentives can lead to crowding-in of ethical behaviors.

Fighting Our Unethical Behavior

Recommendations on Improving Ethical Behaviors (Bazerman & Tenbrunsel, 2011)

Use System 2 (reflective) and anticipate that the “want” self will exert pressure at the time of our decision:

- Using **self-control strategies** to curb that influence (Bazerman & Tenbrunsel, 2011); e.g. commitment devices such as publicly committing to a decision.
- Train the abstract thinking by focusing on the **high-level** aspect of a situation.
- Have **more than one-option** choices, as the multitude of options induce more reasoned decision (Bazerman et al., 1998).
- **Avoid uncertainty, time pressure, and short-term horizons** type of decisions as those factors facilitate ethical fading (Bazerman & Tenbrunsel, 2011).

Conclusion

- Simply knowing about ethical theories is not enough for ethical decision-making and behavior; this lecture session highlighted the importance of moral psychology for ethics.
- (Ethical) Thoughts are a result of two different processes, called System 1 (automatic, quick etc.) and System 2 (logical, slow etc.).
- The ability to make ethical choices is limited because of external factors.
- Therefore, various forms of boundedly ethical decision-making can emerge by individuals and organizations.



Thank you for your attention!