

# Ethical Cycles and Trends: Evidence and Implications

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**ABSTRACT.** Recent high-profile corporate scandals are reminiscent of the corporate raider scandals of the 1980s, suggesting that ethical scandals may occur in waves. This article provides a framework for analysis of this question by suggesting that ethical attitudes may be cyclical about long-term secular trends. We provide some empirical evidence from previously published work for the existence of cycles as well as a potential mechanism for their propagation, namely widespread publicity about a particularly salient event, e.g., Enron. Further, we posit that long-run secular trends would be affected through more deliberate, cognitive means, e.g., instruction in business ethics. We also discuss an important research implication, namely that traditional cross-sectional “book-end” studies surveying ethical attitudes at two different points in time may be unable to disentangle short-run cyclical movements from long-term secular trends.

**KEY WORDS:** ethical cycles, ethical trends, ethical attitudes, teaching business ethics, Enron

**JEL CLASSIFICATION:** M14, B4

## Introduction

Recent ethical scandals surrounding high profile firms and business executives (e.g., Enron, Andersen, Martha Stewart) have renewed concerns about the changing values of Western society – in particular whether business ethics have declined in recent years. In recent history, similar questions regarding societal ethics arose following the savings and loan and corporate-raider scandals of the 1980s, and the Watergate scandal of the 1970s before that. In light of the historical evidence, we question whether scandals move in waves, or “cycles.” In this article, we attempt to (a) provide a framework for the analysis of cycles and trends, (b) identify the existence of cycles, and (c) discuss the implications of

their existence both in terms of policy and research in the area of business ethics.

## Cycles and trends in economics

### *Empirical evidence for business cycles*

There is considerable evidence for the existence of business cycles in the area of economics. According to the National Bureau of Economic Research (2006), there were seven recessions in the U.S. from 1959 to 2003. This would imply that there have been approximately seven boom periods or “peaks” followed by busts or “troughs” (occurring in 1961, 1970, 1975, 1980, 1982, 1991, and 2001) for a total of seven cycles. At the same time, real output has been trending upward over this same period.

### *Theories of business cycles*

There are several different theories which have been posited to explain the regular “boom” and “bust” pattern that is often found in macroeconomic data. One of the first business cycle theorists, Joseph Schumpeter (1934/1989; 212, 214) speculated that recurrent business fluctuations (cycles) would occur initially as a result of “swarms” of entrepreneurs who create spikes in productivity, followed by a panic or shock which drives output downward. Later, Keynes (1953/1964; 218) focused on the role of varying levels of marginal efficiency of capital to explain a “boom” of investment followed by a “slump.” More recently, Lucas (1987) hypothesized business cycles are the result of stochastic technological shocks, which create opportunities for investment and productivity, which increase real output, followed by a crash. While each of these business cycle

theories posits a slightly different mechanism, each explains the same phenomenon, namely a somewhat orderly pattern of an acceleration of business activity, followed by a precipitous decline.

### Cycles and trends in business ethics

#### *Empirical evidence*

At the moment, we are not aware of an analog for business cycles in the business ethics literature. The vast majority of empirical efforts to compare ethical attitudes over time have employed “book-end” (i.e., front-end and back-end only) comparisons to estimate long-term trends. One of the earliest attempts was by Brenner and Molander (1977), who followed up over a decade later to compare ethical attitudes to those reported in Baumhart’s (1961) surveys. Similar 10-year follow-up surveys have been conducted by Harich and Curren (1995) who replicated Stevens’ (1984) study, and Farling and Winston (2001) who tested ethical attitudes a decade after Grant and Broom’s (1988) study. Our own work in this area (Emerson and Conroy, 2004) used a 16-year time-frame for comparison. The results from each of these investigations are mixed. Some find that ethical attitudes appear to have improved, others that they have worsened over their respective time period. Further, results tend to vary depending on the ethical dimensions being studied, even within each study.

Some evidence exists from shorter-term studies as well. Norris and Gifford (1988) sample students at six points between 1976 and 1986 (as well as retail store managers at the “book-ends” of the period). The focus of their investigation was to provide both a comparative and longitudinal analysis. They found that the ethical attitudes of students significantly decreased while those of managers increased. Additionally, Zinkhan et al. (1989) conducted a series of cross-sectional surveys of MBA students each semester from 1981 to 1987. While their investigative focus was on linear trend analysis, the data reported in their paper offered an intriguing – if fragile – hint that ethical attitudes were anything but stable over time. In fact, we would argue that none of the reported results for the 14 vignettes appeared to be linear over time. Indeed, they reported that results for one of their

vignettes “appear(ed) more cyclical than (*sic*) linear in pattern ( $r = 0.35$ )” (p. 968). However, with cross-sectional sampling waves of only 41–53 students taking the same MBA course at the same university each period, we agree that the authors lacked “a sufficient number of data points to employ a more sophisticated approach” (p. 972). In our own investigation (Conroy and Emerson, 2006), we sampled students at two universities over an 18-month period. Unwittingly, our cross-sectional data collection period included sampling students before, during and after the Enron and ImClone scandals. Further, we included vignettes that resembled the ethical breaches that were involved, namely an “accounting tricks” and an “insider trading” vignette. Ex post, we were able to track ethical attitudes over this 18-month period and found that, even when controlling for a number of important factors, respondents became less-accepting of these vignettes – presumably as they were exposed to the effects of the actions. As such, we may have identified part of an ethical cycle.

#### *A theory of ethical cycles*

While we are not aware of any previously published work in this area that discusses trends and cycles in business ethics, considerable and varied theoretical work exists explaining the means by which ethical attitudes may change. In the cognitive moral development school, Kohlberg’s (1981) “stage theory” of ethical development implies a gradual, (largely) monotonic, unidirectional progression in individuals over time from lower to higher ethical levels. In the area of attitudinal change, Wildavsky (1987) suggests that political attitudes or “preferences” are formed through social interactions and culture. In a similar vein, Jones (1975) found that student involvement in the political process had a small but significant impact in shaping political preferences. Additionally, Zaller (1992) suggests that public opinion may change over time – or at least appear to change – as respondents to surveys are affected by different pieces of “salient” information at different times. Even though respondents may not actually change their opinions over time, many – especially those who are less “politically aware” – may be easily influenced by salient pieces of information. These respondents often reply with an “off

the top of their heads” response at the time of the survey – a response that could reflect the emotional impact of having just witnessed a single, gripping news story.

Perhaps the most widely cited model for attitude change is Petty and Cacioppo’s (1996) elaboration likelihood model (ELM). This model – which is especially appropriate here, since the empirical studies mentioned in the previous section tend to measure ethical attitudes – suggests that attitude change takes place via two different routes. The first is a more enduring “central route” and the second, a less persistent “peripheral route.” They posit that the more persistent central route involves issue-relevant concerns, i.e., logical analysis of the issue from a cognitive, rational point of view (Lazarus, 1991), and the less-enduring peripheral route involves more tangential or affective concerns (Zajonc and Markus, 1985), i.e., individuals’ response to their own feelings associated with the message (e.g., the ability to obtain a reward) or messenger (e.g., how attractive or authoritative they are) delivering the information. As a result, ethical attitude changes processed through the central route will persist over time and may be part of a long-term trend, whereas changes through the peripheral route are likely to be transitory and may cycle up and down with the current, compelling news story but eventually return to the long-term trend.

## Analysis

We suggest that ethical attitudes may follow a cyclical pattern about a long-term trend in a similar fashion to the economy. That is, society’s ethical attitudes may follow a general long-run trend with attitudes constant, increasing, or decreasing in their acceptance of ethically questionable behavior, but that attitudes may also oscillate in a cyclical pattern around the trend. Given Petty and Cacioppo’s (1996) ELM framework, respondents’ ethical attitudes may be swayed by some salient event (e.g., the news story-du-jour, such as ethical breaches by principals associated with Enron/Arthur Andersen or Martha Stewart and ImClone (Conroy and Emerson, 2006)) through the less-enduring peripheral route. Given the fleeting nature of this process, a different salient event could sway ethical attitudes in another direction. On the other hand, some ethical

attitudes – particularly those processed through the central route – would be much more resistant to change. This would coincide with a particular trend – either increasing, decreasing, or constant. There are two important implications for this analysis. To the extent that trends are more affected by the changing attitudes via the “central route” which relies on cognitive processes, policymakers eager to change long-term trends should focus on cognitive processes. Thus, courses in business ethics may be an important means of affecting the long-term trend in ethical attitudes.

Empirical findings have suggested that teaching business ethics can be effective in changing ethical attitudes (Boyd, 1981–82; Glen, 1992), especially when tailored to a specific business discipline (Green and Weber, 1997; Loe and Weeks, 2000) or while emphasizing specific pedagogical methods (Jones and Ottaway, 2001; Sims, 2002; Sims and Felton, 2006; Weber and Glyptis, 2000). It should be noted, however, that the empirical evidence is mixed (see Borkowski and Ugras, 1992; Martin, 1981–82; Miller and Miller, 1976; Smith and Oakley, 1996; Wynd and Mager, 1989).

Another important implication is that cyclical behavior can confound interpretation of “book end” studies. For example, suppose society’s ethical attitudes follow a gradually increasing secular trend (with decreasing acceptance of ethically questionable behavior), and there is a cyclical pattern about the trend (Figure 1).<sup>1</sup> Suppose further that researchers wishing to identify this trend measure ethical attitudes at only two periods – beginning at, say,  $T_A$  (observing ethical attitudes at level  $E_A$ ) and following

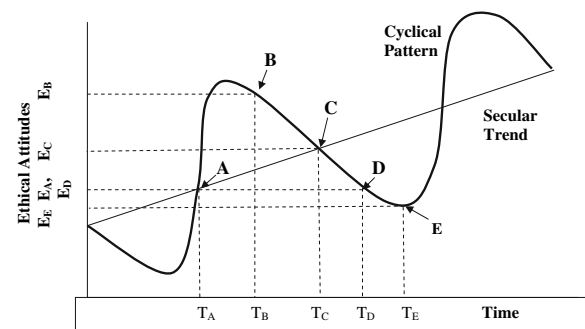


Figure 1. Ethical trends and cycles over time: increasing secular trend with cycles about the trend.

up at one of the other times depicted in the figure. If the follow-up measurement occurs at  $T_B$  or  $T_C$ , then researchers have “correctly” identified an increasing trend. Note, however, that measurement at time,  $T_B$ , would have exaggerated the “trend” due to the fact that  $T_B$  occurs very near the cyclical peak. Only measurement exactly at time,  $T_C$ , would have allowed researchers to properly identify the trend, since the measurement occurs exactly at the same place in the cycle. Clearly, the probability of timing the sampling follow-up at exactly this moment would be close to zero. If the timing had occurred at  $T_D$ , then researchers would have incorrectly concluded that ethical attitudes were not changing over time and at  $T_E$ , that they were decreasing over time. Thus, the use of “book-end” sampling methodologies in the presence of cyclical patterns can lead to spurious conclusions about long-run trends.

Two features of the data would reduce the probability of this error: (a) if cyclical patterns were small or nonexistent and (b) if the upward or downward trend were large, relative to the cycle. In the latter case, the longer the period between sample collection points, the higher the probability of the proper identification of the direction of change (if not its magnitude). On the other hand, flat trends with large cyclical fluctuations would be particularly susceptible to improper interpretation over time. We demonstrate this next using a real empirical example.

The Zinkhan et al. (1989) study mentioned above provides an interesting real world example of the problem of identifying a long-run trend (from a short-run cycle) with only two data points. One of the ethical challenges (question #5) used in Zinkhan et al.’s investigation involves firing a sales representative who is underperforming due to “recent family troubles” (p. 966). In Figure 2 we have attempted to replicate Zinkhan et al.’s diagram, which reports the percentage of respondents who indicate that they would engage in such ethically sensitive behavior. The trend line which we have imposed using all 12 data points is slightly positive but not significant ( $R^2 = 0.0039$ ) so we could characterize the trend as essentially “flat.”

If, however, sampling had only occurred during the first and last periods (i.e., fall of 1981 and the spring of 1987), it would have appeared that the

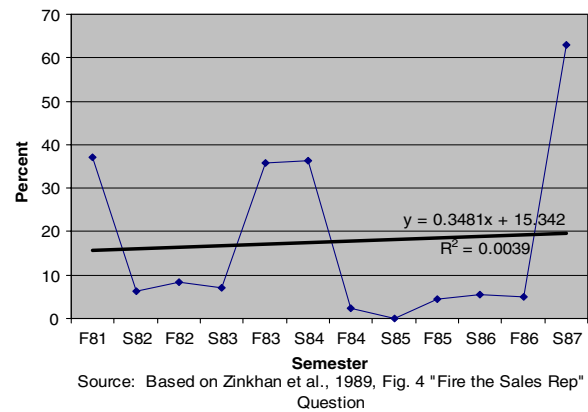


Figure 2. Ethical trends and cycles over time: an example from Zinkhan et al. (1989). Percentage of respondents willing to fire an under-performing sales representative who is experiencing family troubles.

willingness to engage in such activity had increased – and by nearly 30% points. Researchers employing this research methodology would be tempted to conclude that ethical attitudes over this 6-year period were declining (as acceptability of this ethically charged vignette increased). This conclusion would have been even more dramatic had researchers chosen the spring 1982 and spring 1987 as their beginning and ending points, respectively, with a nearly 60% point increase. Alternatively, beginning again with the fall 1981 sampling period, if the second sampling frame had occurred in fall 1986 (i.e., just one period earlier than the final period in this study), researchers would have been led to conclude the exact opposite, namely that the percentage of respondents willing to fire the sales representative actually fell (by approximately 30% points).

When examining the entire period (1981–1987), there appear to be two cycles – an initial peak, followed by a trough, then back to another peak (then a repetition of the same over again). As we have argued elsewhere (Conroy and Emerson, 2006), propagation of cycles such as these could result from the widespread publicity of salient events relating to the specific ethical vignettes. An alternative explanation could also be that there is simply “noise” in the data. Either way, failure to account for these vacillations would result in inaccurate characterizations of the data.

## Discussion

This article has attempted to provide a framework for analysis of changing ethical attitudes. While previous investigations have either attempted to measure long-run changes using “book end” sampling methodologies (e.g., Brenner and Molander, 1977; Farling and Winston, 2001; Harich and Curren, 1995) or have presented short-run changes in ethical attitudes (Zinkhan et al., 1989; Conroy and Emerson, 2006), there has been no previous attempt to present a coherent theoretical framework for “ethical cycles” and trends. This current investigation is a first step toward this end.

Given the recent wave of scandals in business ethics, which followed in the wake of the corporate-raider scandals of the 1980s, this article offers a number of possible scenarios that could explain the apparently cyclical pattern. We suggest that cyclical patterns may emerge in the area of business ethics, just as there are cycles in real output of the macroeconomy, albeit with different causes. In addition to introducing this conceptual framework to the literature, we provide some evidence from previously published work for the existence of cycles in business ethics. We also provide a potential mechanism for the propagation of ethical cycles, namely widespread publicity about a particularly salient event, e.g., Enron, whereas trends would be affected through more deliberate, cognitive means.

Two important policy implications are discussed. First, business ethics courses may provide an effective means to adjust long-term trends in ethical attitudes. To the extent that these affect the more enduring, central processing route, they would at least potentially provide an important means of changing long-run attitudes. As noted previously (Conroy and Emerson, 2006), media coverage about scandals in business (e.g., corporate-raider scandals of the 1980s or the more recent Enron/WorldCom/ImClone, etc. scandals) may provide the impetus for propagation of short-term cycles, through the less-enduring peripheral route (Petty and Cacioppo, 1996), about some trend.

Second, empirical attempts to draw long-term inferences over time about whether ethical attitudes

are “improving” or “worsening” must consider an appropriate methodological framework that separates ethical cycles from trends. We have demonstrated here that failure to consider the existence of ethical cycles can be problematic. First, important information about the nature of ethical attitudes – i.e., whether they are fluctuating, stable, etc.—and inferences about the potential causes of these short-term fluctuations is lost. Second, improper identification of cycles and trends can lead to spurious conclusions about long-run ethical trends.

Panel data tracking ethical attitudes over time in a myriad of dimensions (i.e., asking more than just one vignette) would improve the likelihood of proper identification of cycles and trends. Prior work by the authors (Conroy and Emerson, 2006) suggests that a cycle may occur within an 18- to 24-month period. The implication of this is that sampling waves should occur in considerably shorter intervals than has been the norm in traditional “book-end” sampling methodologies. While any suggested interval would be arbitrary, we believe that – at a minimum – the order of magnitude should be in months, not years or even decades. In addition, cross-sectional sampling seems to be the norm in studies of ethical attitudes. Collection of panel data would greatly improve these studies (in conjunction with more frequent sampling) by reducing compositional issues across sub-samples.

We recognize, however, that collecting panel data is costly in two ways. First, there are additional costs in terms of time, effort and possibly financial costs to pay for data collection and analysis. Second, panel data (which necessarily eliminates the use of anonymous surveys) with frequent waves increases the probability that survey respondents may hesitate to respond truthfully and honestly to ethically charged dilemmas (i.e., increase the risk of social desirability bias). While there are obvious costs that accompany more frequent sampling methodologies, analysis presented here suggests that there may also be significant benefits. We suggest that researchers consider both the costs and benefits to make appropriate methodological decisions.



## Note

<sup>1</sup> Similar arguments can be made in the presence of decreasing and flat secular trends. These discussions are excluded here for brevity.

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