How Organizations Lose Their Way: Unethical Behavior and Moral Disengagement in Complex Organizational Context

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Abstract: Unethical behavior in organizations has garnered more and more attention in the last decades but most of the scholarly work has used a static approach relying on methodological individualism and a mechanistic worldview when studying this topic. The process of moral disengagement and organizational culture have been linked to the prevalence of unethical behavior earlier, but this paper uses a complexity-informed systems perspective to explore the dynamic relationship of these concepts and aims to improve our understanding of the often unnoticeable, step-by-step process through which organizational cultures can become conducive to unethical behavior. Organizations are conceptualized as complex adaptive systems in which transformative and stabilizing processes based on feedback loops take place continuously. It is discussed how these processes can lead to a phase transition driving organizations towards a state where unethical behavior is the general norm. The process is illustrated through real-life examples.

Key Words: unethical behavior, moral disengagement, organizational culture, complex adaptive systems

Introduction

The majority of economic activities today are pursued by business organizations whose key feature is that they distribute financial liability. However, they also distribute, therefore, diffuse moral liability. Combined with globalization, where stakeholders, employees, and consumers are sometimes separated by continents, the situation often tends towards a “tragedy of the commons at a global scale” (Zsolnai, 2018: 4).
About fifteen years ago, Spitzer (2006) talked about an “ethics crisis,” referring to the then current WorldCom, Enron, Arthur Andersen and similar major corporate scandals. He suggested that solving this crisis requires more than the implementation of compliance measures and increasing the amount of ethics education. It requires getting to the “heart of the problem.” So, how are we, collectively, getting along with that? The continued emergence of accounts on corporate misbehavior shows that we are not doing well. This is illustrated by the fact that the popular streaming service provider, Netflix, now hosts a documentary series, titled “Dirty Money,” that is dedicated almost entirely to reporting on organizational wrongdoing, and emphasizes the process of how organizations ‘lose their way.’

Boeing provided one of the more recent examples of a high-profile debacle where unethical behavior in the organization resulted in serious societal harm. In 2019, all 737 Max airplanes—a brand new model introduced just the year before—were grounded as two crashes of such planes resulted in the deaths of 346 people. The reason for both accidents was found to be a design flaw, which can be attributed to cost saving efforts overruling safety considerations during the development process. This situation raises many important questions, but an especially intriguing one is how a company that was previously considered an American icon, with a culture built around engineering prowess and excellence in innovation turned into an organization where unethical behavior was widespread and the goal of maximizing profit trumped all other considerations (Bloomberg, 2020).

Unethical behavior in organizations has garnered more and more attention in the last decades and it has become an established research topic in business ethics. In this paper, unethical behavior refers to actions that are committed within or by an organization and they may or may not be illegal, but they would clearly be deemed inappropriate and harmful by relatively impartial societal observers. Examples would include corruption; cheating and lying for monetary gains for an individual or the organization; harming stakeholders physically or mentally; or blatantly disregarding environmental and/or societal externalities. Researchers have studied antecedents of unethical behavior, and these can be grouped into (i) ethical infrastructure; (ii) interpersonal influences; (iii) individual influences; (iv) cognitive processes; and (v) affective processes (Treviño et al., 2014). It has also been shown that ethical and unethical behavior have an impact on several important organizational outcomes, such as job satisfaction, organizational commitment, organizational citizenship, deviant behavior, and turnover intentions (Cialdini et al., 2021).
This body of research has helped to understand general relations of different factors that lead to unethical behavior in organizational context, but a major limitation of these studies is their undeclared subscription to the underlying assumptions of positivism, methodological individualism and a mechanistic view of systems. Stacey and Mowles (2016) describe how this worldview became prominent in management scholarship and led to misguided thinking about business strategies, ignoring concepts like circular causality, interdependence of systems and non-linearity. As discussed by Painter-Morland (2008), the same worldview has been dominant in business ethics as well, being manifested in assumptions such as independent moral agency, objective moral imperatives and universally applicable practices pertaining to ethics in a business environment. This leads to a form of ethical inquiry that necessarily excludes the dynamics of real-world business organizations and in turn contributes to the dissociation of ethics from the practice of business.

One of the remedies to this state of affairs is to revisit basic philosophical assumptions about ethics and management practices. As part of this endeavor, we need to challenge the belief that “phenomena could only be meaningfully described in terms of stable systems of elements governed by predictable cause-and-effect relationships” (Painter-Morland, 2008: 117) and conceptualize organizations as complex adaptive systems. As the lack of efficacy of corporate codes of ethics, ethics trainings and similar attempts at curbing unethical behavior in organizations has shown (Painter-Morland, 2008), we have yet to develop a comprehensive understanding of what drives unethical behavior in organizations and what are the truly effective ways of containing and impeding it. This calls for new ways of understanding organizational phenomena that so far have mostly been studied from the perspective of the mechanistic worldview. These will need to lead to findings that are dynamic (instead of static) and applicable to the particular (instead of pertaining only to the general).

Taking this as our point of departure, this paper is intended to contribute to understanding the dynamic of unethical behavior in organizations while conceptualizing them as complex adaptive systems. This still covers a plethora of factors and mechanisms that contribute to and result from unethical behavior, and an inquiry trying to summarize all of those goes beyond the confines of this paper. Therefore, the objective here is to address a couple of specific business ethics related concepts that have barely or not at all been studied from a complexity-informed systems perspective.

The first such concept is moral disengagement, a psychological process described by Albert Bandura (2016). Extensive research has already linked moral
disengagement with unethical behavior in business organizations (Newman et al., 2020), but much of it is burdened with a lack of conceptual clarity, as what is being studied is often a trait-like concept of ‘propensity to moral disengagement,’ as opposed to a process that unfolds over time (Schaefer & Bouwmeester, 2021). Also, almost all of the research related to moral disengagement looks only at the individual level and not the level of the organization (Newman et al., 2020). Both of these gaps are addressed in the following sections.

To help conceptualize moral disengagement on the organizational level, the second main concept used in this paper, organizational culture will be introduced. There are many different definitions of what constitutes the culture of an organization, but most of these are also built on a static and mechanistic view. To allow us to tap into organizational dynamics, the three-layer model of Edgar Schein (2010) is used as the basis of understanding organizational culture and its changes in relation to unethical behavior.

Therefore, the pronounced aim of this paper is to understand the dynamic interaction of organizational culture and moral disengagement that can lead to prevalent unethical behavior in organizations. The rest of the paper is structured as follows: the first section gives an introduction to systems theories and the concept of complex adaptive systems. In the second section, a review of the research on unethical behavior in organizations is provided. This review is not meant to be exhaustive and comprehensive (for such a review see, for example, Treviño et al., 2014) as it serves rather to point out the gaps and limitations of the mostly positivist and methodologically individualist approaches. In the third section, moral disengagement is discussed in detail and a conceptualization of this construct on the organizational level is proposed with the help of Schein’s (2010) model of organizational culture. Subsequently, a proposal for the representation of the dynamic interplay among moral disengagement, organizational culture and unethical behavior is developed. In the discussion section examples of unethical behavior in corporations are analyzed which illustrate how the described processes work in particular business organizations.

**Complex Adaptive Systems**

When discussing the origins of systems theories, Laszlo and Krippner (1998) start with the philosophy of organisms devised by Alfre North Whitehead, the biological advances of Paul A. Weiss and the comprehensive attempt of Ludwig von Bertalanffy to formulate a general theory of systems. Bertalanffy (1969) claimed that such a theory “can ask for principles applying to systems in general irrespective of whether they are physical, biological, or sociological in nature”
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(Bertalanffy, 1969: 33). The most important insight from Bertalanffy that is relevant to this paper is that systems in general have constitutive characteristics which means that their properties originate not only from the properties of their parts but from their relation to each other in space and time, which thus leads to complexity.

Despite its claim to general applicability, Bertalanffy’s system theory is less often referenced in social and organizational studies. With work originating in sociology, however, Niklas Luhmann contributed to the integration of a systems perspective into the social sciences. Instead of defining systems based on their constitutive parts and their interactions, Luhmann defined systems as a distinction between the system and its environment. This was inspired by Spencer Brown’s calculus and Maturana’s concept of autopoietic systems which are capable of producing and maintaining their own boundaries (Roth et al., 2020). One of the main purposes of a system in a Luhmannian sense is to decrease complexity through creating and maintaining a complexity differential between itself and the environment (Valentinov & Roth, 2018). This leads to Luhmann’s concept of operational closure, postulating that contrary to machines and mechanistic systems, autopoietic systems are self-designed and self-maintaining and, therefore, all their operations are internally produced. This seems contradictory to one of the main tenets of Bertalanffy’s systemic openness, but Luhmann stated that “all openness is based on the closure of the system.” In somewhat more detail, this means that only operationally closed systems can develop a high level of inner complexity, which can then serve to specify the respects in which the system reacts to conditions of its environment, while in all other respects, thanks to its autopoiesis, it can remain indifferent (formulated by Luhmann as quoted by Valentinov and Roth, 2018: 5).

However, in Luhmann’s account, morality is inherently external to the systems of economics, politics or the media, and this understanding might even render the concept of business ethics meaningless. Therefore, although informed by the Luhmannian perspective of social systems, this paper will continue to rely more heavily on the perspective of systems theory which takes actions, not communication as the basic elements of social systems. This approach can more readily be associated with evolutionary processes in social systems, describing how the intensifying flows of people, information, energy, and goods can transcend the boundaries of these systems, evolving through convergence towards progressively higher levels of organization (Laszlo & Krippner, 1998). This allows for a close association to the quest of business ethics, since
general evolution theory provides a conceptual foundation for theories and tenets of evolutionary consciousness, evolutionary action, and evolutionary ethics. It suggests that human destiny can be placed in human hands, since it postulates moving toward conscious evolutionary strategies by which to guide the sustainable development of human communities. When this theory is combined with the emancipatory systems approach, a normative imperative emerges for the proactive design—or redesign—of the human future. It accents the empowerment of individuals and groups through the envisioning and subsequent co-creation of evolutionary pathways to desired future states of multiperson evolutionary systems. (Laszlo & Krippner, 1998: 19)

To arrive to the conceptualization of organizations as complex adaptive systems, the notion of systems has been discussed so far, but some elaboration on the terms ‘complex’ and ‘adaptive’ is still due. The concept of complexity appears in the works of both Bertalanffy and Luhmann, but it is not defined by either of them. In spite of—or perhaps because of—its frequent use, complexity came to have different meanings, some relying on the concept of entropy, others using information, and again others focusing on diversity of hierarchical levels as a key determinant in their definitions (Eidelson, 1997). Cilliers (2002) provides the following description of complex systems, focusing on the difference between complicated and complex:

If a system—despite the fact that it may consist of a huge number of components—can be given a complete description in terms of its individual constituents, such a system is merely complicated. Things like jumbo jets or computers are complicated. In a complex system, on the other hand, the interaction among constituents of the system, and the interaction between the system and its environment, are of such a nature that the system as a whole cannot be fully understood simply by analyzing its components. Moreover, these relationships are not fixed, but shift and change, often as a result of self-organization. This can result in novel features, usually referred to in terms of emergent properties. (Cilliers, 2002: ix)

Emergence, an important concept in the theory of complex systems, can be understood as the formulation of aggregate-level behavior that is the result of localized, individual behavior, but studying the individual, or summarizing information about many individuals will not provide an understanding of the aggregate level. A simple example is that of visual perception of an image that is made up of pixels. Knowing the color, shape, or size of one pixel, or even those of all the pixels, will not enable us to see what is on the image (Miller & Page, 2009).
Finally, why is it also necessary to highlight that complex systems are—and need to be—adaptive? This follows from the second part of the quote above, as the continuous self-organization of complex systems results not only in their boundary setting but also in continuous change. Complex systems constantly transform and replace their components; they recreate themselves through structural changes (Capra, 2002). Changes in systems rely on input from the environment but they are best understood not by concentrating on single action-reaction instances but on feedback mechanisms. Feedback refers to information about an event that is supplied to the elements that are causally responsible for the occurrence, and therefore, they have an impact on subsequent occurrences of similar events (Bertalanffy, 1969). Negative feedback mechanisms can lead to homeostatic processes while positive feedback loops can lead to amplification and the spread of change (Miller & Page, 2009). Therefore, understanding a complex system requires an understanding of its adaptation processes.

These premises give rise to the concept of complex adaptive systems. This paper will build on the definition of Miller and Page (2009) who describe complex adaptive systems as being comprised of interacting and thoughtful agents, in which by understanding the behavior of the agents separately, systems cannot be understood as a whole. It is only by studying the whole system that we can understands its patterns of behavior and its continuous evolution. The concept of complex adaptive systems has been used—among many others—in studying supply chains (Surana et al., 2005); the spread of innovation (Rogers et al., 2005); organizational change (Dooley, 1997); and leadership (Schneider & Somers, 2006). In some disciplines, such as economics, complex systems approaches have gained more traction in the recent decades (Arthur, 1999; Holt et al., 2011) but they are still not part of the mainstream (Van den Berg, 2018). Although some scholars in business ethics, such as Mollie Painter-Morland (2008) and Patricia Werhane (2008) have explicitly called for a complexity-informed approach, complexity has had a limited reach in business ethics so far, as pointed out by Preiser and Cilliers (2010). The next chapter presents a discussion of why this is problematic when pursuing research on unethical behavior in organizations and how we can do better.

Unethical Behavior in Organizations

The General Approach to Researching Unethical Behavior in Organizations

Scholars have long engaged in trying to uncover the antecedents and consequences of unethical behavior in organizations and several models have been
proposed on how individuals make decisions and behave in ethically challenging organizational situations (e.g., Treviño, 1986; Treviño et al., 2006; Schwartz, 2016). It has also been widely studied how unethical behavior is related to concepts on the organizational level. Ethical climate (Victor & Cullen, 1987) and ethical culture (Treviño et al., 1998) have most frequently been used to provide an understanding on why unethical behavior is more common in certain organizations than in others (Newman et al., 2017). Robust empirical evidence supports that cognitive moral development (Kohlberg, 1984), a moral philosophy of idealism and relativism (Forsyth, 1980), Machiavellianism, locus of control, job satisfaction, ethical climate (Victor & Cullen, 1987) and ethical culture are related to unethical choices, intentions and behavior (Kish-Gephart et al., 2010). Treviño, den Nieuwenboer, and Kish-Gephart (2014) provide a comprehensive overview of the concepts and constructs on the organizational and individual level that have been studied in relation to unethical behavior.

While this body of research has led to some robust findings, Brand (2009) raises the issue that much of the work done in this area relies on a positivist or post-positivist approach, using cross-sectional surveys and statistical analysis as a standard method. In business ethics, just like in business related research in general, there is an often unstated assumption that methods that led to useful findings in the natural sciences are equally successful when studying social phenomena, such as business organizations (Mowles et al., 2008). This results in the dominance of methodological individualism, where the subject of the study is an individual agent being observed from an objective perspective, and any higher level of organization (e.g., a department, a company, an industry) is treated as nothing more than a simple aggregate of individual agents or lower level organizations. Based on this assumption, “[e]thics surveys and climate studies are regularly employed, but are mostly incapable of detecting or describing the tacit, unwritten rules that are the primary source of moral orientation in many organizations (Painter-Morland, 2008: 5).”

As Campbell and Cowton (2015) point out, many of the ‘larger questions’ in ethics are intractable with the methods that are generally used by the majority of empirical business ethics researchers. This is not an objection to positivistic, hypothetico-deductive research in business ethics, but an attempt to point out its limitations and question its sheer dominance. The conception and development of theory can take several different routes without giving up scientific rigor (Lincoln & Guba, 1986). Alas, some questions are particularly difficult to answer by using data from Likert-scale surveys and their statistical analyses. If it is shown that a variable, for example Machiavellianism is related to unethical behavior
in organizations, we might want to know how this actually unfolds. If there is some level of Machiavellianism in some individuals, will this make the whole organization a bit more unethical? Or a lot more unethical? And how fast does this occur? Such questions require a dynamic view of the organization.

**Understanding Unethical Behavior through a Complex Adaptive Systems Approach**

Similar to much of the social sciences, traditional modelling approaches in business ethics implicitly assume disorganized complexity (Weaver, 1948) where organized complexity would be an appropriate assumption (Miller & Page, 2009). This is important because in disorganized complexity the impact of phenomena that deviate from the mean are expected to average out; the occurrence of an extreme value to one end is supposed to be rare and it is supposed to be compensated by another rare extreme occurrence to the other end. However, interdependent occurrences in complex systems can reinforce each other and this can result in emergent behaviors on the level of the system, such as self-organization and phase transition.

Self-organization keeps systems in a relatively stable state without or with limited outside influence. Glance and Huberman (1994) analyzed how relatively stable strategies of handling social dilemmas are formed in groups. The group as a whole tends to maintain either a high level of cooperation or a very low one or, alternatively, they are in the transformation from one state to another. According to Glance and Huberman (1994) the transformation of an organization dominated by defection strategies into wide-spread cooperation (or the other-way around) is often initiated by a few members on the lowest level of the hierarchy.

A *phase transition* occurs when a system’s behavior changes recognizably, that is to say it shows qualitatively different behavior after passing a critical point. This is best illustrated with the change of substance’s state from liquid to solid as a result of decreasing temperature (Eidelson, 1997). The interesting point is that the direct cause of the phase transition could seem negligible if interpreted outside the context of the system. Cooling a bowl of water by one degree, in most cases has little effect on the overall properties of it, however, when a critical point, zero Celsius is reached, cooling it by one degree results in a significant change. Similarly, the behavior of an individual, in most cases will have little impact on the norms of an organization, but in some cases, it might result in pushing the system over the edge and significantly altering organizational norms. Kim and Lee (2019) developed a computational model to illustrate how collective corruption in organizations can be understood as a percolation-like
process. They point out that up to some point, corrupt agents in the organization are considered to be deviant from the norm but as collective corruption unfolds little by little, a phase transition occurs, and corrupt action becomes generally accepted.

Therefore, it is argued here that studying how unethical behavior spreads through the relations between the members of the organization is particularly important. Some research looks specifically at peer influence on unethical behavior (e.g., O’Fallon and Butterfield, 2012; Brunner and Ostermaier, 2019), but such studies also tend to use a static, methodologically individualistic approach, where the subjects receive one input and make one decision based on that, thus circular causality is not captured. Brass, Butterfield, and Skaggs (1998) advanced this discussion by connecting findings about the relationship of unethical behavior to personal and organizational characteristics with social network theory.

Inputs and decisions in organizations occur continuously and form feedback loops that are the basis for complex system phenomena. Thus, a dynamic complex systems approach can help better understand different aspects of unethical behavior in organizations. In the next section, the notion of moral disengagement is introduced and it is discussed how Schein’s (2010) model of organizational culture can help conceptualize it at the level of the organization, contributing to the system-wide processes of unethical behavior.

**Moral Disengagement In Organizations**

**Moral Disengagement**

Moral disengagement (Bandura, 2016) refers to a set of psychological mechanisms which allow otherwise decent individuals with high moral standards to selectively disengage from their self-restraining and self-sanctioning cognitive processes. The mechanisms operate at the behavior locus, by (i) providing moral justifications, (ii) euphemistic labelling, and (iii) advantageous comparisons; at the agency locus by the (iv) displacement, and (v) diffusion of responsibility; at the outcome locus by (vi) minimizing, ignoring or misconstruing the consequences; and at the victim locus by the (vii) attribution of blame to the victims, and their (viii) dehumanization.

Moral disengagement mechanisms can be understood as ways for coping with cognitive dissonance (Festinger, 1957). When someone committing a moral transgression provides justifications, s/he aims to reduce the uncomfortable idea of being unethical by appealing to the righteous ends that necessitated the use of immoral means. Euphemistic labelling is used, when the moral content of
the act is changed through the distorted use of language, such as calling theft ‘borrowing’ or a lie ‘inaccuracy.’ Advantageous comparisons also make it possible for the individual to feel that even if s/he did make a ‘mistake,’ others have done far worse, and, therefore, in relative terms s/he can still be considered an ethical person. Displacement of responsibility allows the individual to blame someone or something else for the transgression—in an organizational context, claiming that the person acted on orders by a superior is perhaps the most typical case. Diffusion of responsibility works similarly, but in this case some minimal share in responsibility might be assumed by the individual, but the transgression is seen as committed by a group, therefore proclaiming the individual as a sole unethical perpetrator is pictured to be unjustified. Minimizing, ignoring or misconstruing the consequences is a fairly straightforward ‘strategy’ with the help of which the transgressor can find self-exoneration and preserve an ethical self-image. Attribution of blame to the victims also allows the person who acts unethically to clear his or her own responsibility, since those who fell victim to an immoral act supposedly brought it on themselves through some personal weakness or a mistake of their own. In extreme cases, the victims can be dehumanized, meaning that causing harm to them is not even considered unethical, since they are considered inferior in some way and do not deserve to be treated equally to other members of the society.

It has been studied how moral disengagement is related to ethical decision making and unethical behavior in organizations, and other morally relevant constructs, such as Machiavellianism, moral identity, empathy, ethical leadership and destructive deviance (Moore, 2008; Barsky, 2011; Moore et al., 2012; Yıldız et al., 2015; Bonner et al., 2016). However, Schaefer and Bouwmeester (2021) highlight that research related to moral disengagement is burdened by lack of conceptual clarity. The reason for this is that some studies work with the dispositional aspect of moral disengagement, also referred to as the propensity to morally disengage (Moore et al., 2012), while others follow Bandura’s original (Bandura, 1990) and reinforced (Bandura, 2018) understanding of moral disengagement as a process. However, this significant difference on the conceptual level is rarely clarified in the research papers. This is important, because dispositional moral disengagement and process moral disengagement help us understand two distinct causes of unethical behavior in organizations. The former contributes to the narrative of ‘bad apples,’ i.e., that individuals in an organization with specific character traits drive the organization towards unethical behavior, while the latter helps to see how even generally virtuous individuals can become culprits in highly unethical wrongdoing. In this paper, the concept
of process moral disengagement is used, as this helps to capture the dynamic aspect of how organizations become more (or less) unethical.

Another conceptual difficulty around moral disengagement that has been pointed out by Schaefer and Bouwmeester (2021) and earlier by Johnson and Buckley (2015) is that it is mostly studied at the level of the individual, and hardly any research exists related to moral disengagement at the organizational level. In their comprehensive literature review on moral disengagement at work environments Newman, Le, North-Samardzic, and Cohen (2020) find that when organizational level research on moral disengagement is done, it is still most often a summation of individual measurements, and this relates back to the concerns raised earlier in relation to methodological individualism.

Understanding how the process of moral disengagement transcends from the individual to the organization level requires an organic (as opposed to a mechanistic) view of organizations. This leads to the discussion of the second key concept of this paper: organizational culture.

**Organizational Culture**

As Alvesson (2002) highlights, culture is a complex, fuzzy and holistic phenomenon, and it requires systematic thinking to study organizational culture. However, the cultural models that are perhaps most well-known and most often taught in business schools (Blasco, 2009), such as the Hofstede model (Hofstede, 2001) only capture a generic and static image that can serve well to show cultural differences, but they fail to provide an understanding of cultural dynamics (Morris et al., 2015).

Schein (2010) has conducted extensive participatory qualitative work that allowed him to observe how culture influences behavior in organizations. He created a three-level model of organizational culture consisting of (i) artifacts (ii) espoused beliefs and values; and (iii) basic underlying assumptions. Artifacts, in this model represent materialized products of the culture, as well as observable behaviors such as a dress code or the style of written communication. Espoused beliefs and values capture what members of the organization consider important driving mechanisms of the organization. For example, if an organization proclaims that the safety of its employees is one of its core values, then it will most likely provide safety related trainings to the employees, safety issues will be discussed before introducing changes in work processes, and the number of safety related incidents will be handled as a key performance indicator. The basic underlying assumptions are the true determinants of the organizational culture, however. These are the things that are not often discussed, and most
organizational members are not even consciously aware of how much these influence their behavior. Painter-Morland (2008) calls this the tacit element of an organization’s culture, referring to the concept of tacit knowledge from Polanyi (1966), and his insight that we know more than what we can say. Schein focuses most heavily on this third layer, and he defines organizational culture as “a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein, 2010 p. 18).

Treviño, Butterfield, and McCabe (1998) discuss the role that ethical context plays in relation to unethical behavior in organizations. They argue that if the organizational culture is not proactively managed to constrain misconduct, short term business incentives might lead to the erosion of the culture. Although this is fundamentally appealing to those who would like to curb unethical behavior in organizations, the notion of managing the culture is problematic if one does not subscribe to a mechanistic view of organizations. Painter-Morland (2008) discusses in detail how the misunderstanding that the ethical aspect of organizational culture is something that can be measured and then corrected has led to a wide range of misguided interventions, manifested in ethics codes that are not known or not taken seriously, ineffective ethics trainings, or the installation of ethics officers who are far removed from the actual practice of their organizations. Instead of making businesses more ethical, such measures have resulted in the further dissociation of ethics from business. “The question is not whether or how corporations can influence individual behavior. Instead, we may try to unravel the relationship between individuals and their corporate settings and seek to understand the development and reinforcement of certain tacit beliefs. It entails the careful consideration of these dynamics as they unfold” (Painter-Morland, 2008: 127).

The psychological process of moral disengagement that occurs in relation to the work environment can be one of the conceptual tools to understand the moral aspects of the relationship between the individual and the organization. On the one hand, moral disengagement might help resolve the psychological discomfort caused by deviant behavior, on the other hand if deviance becomes common enough, moral disengagement mechanisms themselves can become the norm. If the organizational culture readily offers clues to the employees that aid the process of moral disengagement, it allows them to compartmentalize their actions and thus preserve a moral self-image. Bandura (2016) writes about
instances of moral disengagement that happened at companies in the financial services industry. He mentions the example of a trader saying “I leave my ethics at the door” (Bandura, 2016: 223) and traders calling their clients ‘muppets’ regularly, which is a form of dehumanization. Gioia (1992) also highlights the role of organizational culture in how the Pinto case was handled at Ford. He describes how the scripts that were deeply rooted in the organizational culture motivated employees to make decisions about potentially life-threatening issues in terms of ‘rational’ financial calculations. Thus, they could justify their behavior by appealing to the overall goal of increasing sales and profit. These instances suggest that actions that would have clearly been considered transgressive in most environments were accepted in these companies. Those who engaged in defrauding others or performed cost-benefit analysis using a simple price tag on human life did not have to worry about being regarded as unethical since their actions were within the confines of the organizational norms. The organizational culture protected the self-image of those employees by routinizing moral disengagement and unethical behavior.

But how does the organizational culture come that far? What makes it possible that shared assumptions become so obviously deviant from what is considered acceptable behavior in the society? Ashforth and Anand (2003) describe how corruption, an obviously transgressive behavior, can be normalized in organizations through institutionalization, rationalization and socialization. In their framework, institutionalization is described in three phases: (i) an initial corruption to act; (ii) embedding corruption in structures and processes; and (iii) routinizing corruption. As rationalizations, they list ‘ideologies’ that can be equated to the mechanisms of moral disengagement (Newman et al., 2020), and they discuss with the help of socialization how new members in the organization take over corrupt behavior from veterans. The approach of Ashforth and Anand (2003) is one of the rare examples of looking into the process of how unethical behavior becomes pervasive in organizations, i.e., they also look at the dynamic of organizations, not a static image. While using a similar approach, the focus of this paper is different because it concentrates on the role of organizational culture and moral disengagement. In the next section this is developed in detail.

**The Dynamic of Moral Disengagement, Organizational Culture, and Unethical Behavior**

To illustrate a dynamic process of how an organizational culture transforms its moral outlook, a hypothetical initial phase needs to be chosen. The extremes for this, as described by Walton (2001) could be an ideal moral culture, in which the
organization “which seeks and encourages people of integrity and good moral character, inventing policies and setting work criteria which enable these people to function and interact truthfully” (Walton, 2001: 188), or the exact opposite, where the organizational ethos requires members to “to lie or look the other way when someone else lies, to falsify documents or retain information, to ‘go along to get along,’ skew my best judgment into what some middle or senior administrator wants me to say or do, approve of what I know is wrong, misleading or harmful, and disapprove of those who try to tell the truth and do responsible work” (Walton, 2001: 189). Of course, most organizations will be somewhere in between, but how does this change over time?

When unethical behavior is rarely present at the organization it is likely to be treated as a deviance. Individuals who do engage in such behavior probably have a hard time doing so, as they are likely to receive blame for their actions which leads to psychological discomfort (Lupton & Sarwar, 2021) or in more extreme cases they might be ostracized (Robinson et al., 2013) by their peers. These can be seen as homeostatic responses of the organization. However, if unethical behavior becomes more common, as a result of a perturbation, such as harsh economic environment, change in leadership or some other external or internal factors, it can start impacting the upper layers of the organizational culture.

Certain actions that were considered transgressive might become less noteworthy and might invoke less negative feedback in the organization. Individuals can increasingly engage in moral disengagement, especially in using favorable comparisons, displacement and diffusion of responsibility. These turn into positive feedback loops, as more unethical behavior prompts more opportunities for moral disengagement strategies, and these can further erode the norms against unethical behavior.

The circular causality that plays out here has been linked to social identity theory by Den Nieuwenboer and Kaptein (2008). They differentiate three different downward spirals that drag the organization towards a state where unethical behavior is widespread: the spiral of divergent norms, the spiral of pressures, and the spiral of opportunity. A key feature of these downward spirals is that they rely on self-sustaining processes, that is, a change triggers further changes without further outside input, and as a result “organizational degradation processes may grow in scale over time” (den Nieuwenboer and Kaptein, 2008: 133–134).

Figure 1 shows a visual representation of the dynamic processes between unethical behavior, moral disengagement and organizational culture. Despite focusing on the role of these factors, it is important to acknowledge that other
concepts, which have been discussed in the literature (e.g., ethical leadership [Brown and Treviño, 2006], ethical climate [Victor and Cullen, 1987], bounded awareness [Bazerman and Sezer, 2016]) do also impact unethical behavior in the organization. The box with three-dot idea shapes in Figure 1 represents these other factors. The connections on this representation are not the markers of correlations, instead they depict feedback mechanisms and circular causality between the highlighted constructs.

![Figure 1. Illustration of the dynamic processes between unethical behavior, moral disengagement and organizational culture](image)

In this context the process of moral disengagement can be reformulated from a systems perspective. The mechanisms of moral disengagement will not only be attempted by members of the organization, but will be accepted by others, thus providing positive feedback to those who morally disengage from their self-restraining mechanisms and from organizational norms that prevent unethical behaviors. This leads to more unethical behavior that is ‘covered-up’ by moral disengagement and instead of being treated as deviance, it is accepted again by the organization, prompting more unethical behavior and thus leading to a positive feedback loop. Through this feedback loop, moral disengagement transcends from the level of the individual, where the mechanisms operate to protect the self-image so that there is no dissonance experienced by the self, to the level of the organization where the disengagement process now protects the individual so that there is less dissonance experienced in the organization.
The euphemistic labelling of a device used by Volkswagen for cheating environmental measurements (a case that will be described in a bit more detail later) can serve as an example. This commences with the clearly unethical act of creating a so-called ‘defeat device,’ and then starting to call it an ‘acoustic function.’ One might think that this only aims to keep the project hidden from official documents, but just as importantly this euphemistic labelling absolves individuals from confronting the fact that they are engaging in cheating that is illegal and highly unethical. Once the euphemistic labelling is taken up by more individuals, a whole team, or even by the whole organization, the protection of the moral self-image is not provided only by the individual but by the community or the whole organization. As a result, the organization is exposed to less or no dissonance in relation to engaging in unethical behavior.

As a result of continuous adaption, at some point the organization arrives to a phase transition, when the norms no longer prevent unethical behavior, but they support it. Not performing misconduct comes to be seen as aberrant (Ashforth & Anand, 2003). At this stage amorality or immorality becomes a basic shared assumption in the organization, and employees start publicly voicing their disregard for ethical standards and endorse unethical behavior as part of how the organization functions. Euphemisms can blend into the language used at the organization, an unquestioned teleopathy (Solas, 2019) towards profit or self-interest can provide moral justification for almost any action, and assuming away any harm, as well as blaming the victim for it can become everyday practice. As a result, unethical behavior becomes pervasive in the organization. This is visualized in Figure 2.

![Diagram showing phase transition](Image)

**Figure 2. Illustration of a phase transition**
Such a state can, unfortunately, also be relatively stable. Newcomers, who join an organization where unethical behavior is so widespread, are most likely to socialize into these conditions (Ashforth & Anand, 2003) or quit the organization. Any attempts at counteracting unethical behavior will be met by negative feedback that keeps the system in the current state. For instance, whistleblowing is often met with different forms of retaliation that discourage others from voicing concerns (Miceli et al., 2008). Until a large scandal erupts, this state can also be largely concealed from the outside world as the general dishonesty that governs life within the organization also obscures its own presence, so that the image of a well-functioning organization with exemplary moral values is presented towards casual stakeholders (Walton, 2001).

However, it is possible for a positive feedback loop to emerge and push the organization towards a state where ethical behavior is the norm. Bandura, Caprara, and Zsolnai (2000) suggest that making consequences of decisions more salient, instituting clear lines of accountability and exposing sanitizing language to wide audiences can help in counteracting injurious practices caused by moral disengagement. Remišová, Lašáková, and Kirchmayer (2019) argue that comprehensive ethics programs can help shape the organizational culture in a positive way, but as Treviño, Weaver, Gibson, and Toffler (1999) rightly point out, this is a long-term process that requires commitment and buy-in form the entirety of the organizations, and the programs need to coincide with a cultural change. It is also highlighted by Treviño, Weaver, Gibson, and Toffler (1999) that if ethics programs are perceived only as ‘window dressing,’ they are more likely to be ineffective or counterproductive. In this case the steps that aim to reduce unethical behavior will not be followed by positive feedback mechanisms that could move the system to a different state, instead the employee reactions will act as negative feedback and keep the system in the unethical state. In order to reach a state where moral disengagement and unethical behavior rarely occur, an upward spiral (den Nieuwenboer & Kaptein, 2008) is needed which relies on the change of factors that reinforce each other and lead to further and further positive changes until a phase transition is achieved.

This leads to the reinforcement of the idea that organizations tend to maintain a state with dominantly ethical or unethical norms that form the basis of the organizational culture or they are in a transformation from one state to another. Therefore, studying the system-wide behavior through processes, such as moral disengagement can be more revealing about the moral nature of an organization than a static image presented by cross-sectional data. In the next section, illustrative examples are discussed to show how this is manifested in practice.
Discussion

High profile scandals that result from unethical behavior in organizations have been popping up regularly in the last decades. As discussed before, these tend to come as surprises to the public, by whose perception the corporations involved are often the embodiment of something valuable, such as carmaker with a century long tradition or an aviation company that has been at the forefront of innovation for many decades. Deception at all levels in such organizations conceals their internal process of moral disintegration. It is only after scandals that seemingly obvious signs of serious ethical issues seem to become visible as being present all over the company.

Relying on the concepts discussed, it can be captured how such processes unfold, when organizations are conceptualized as complex adaptive systems. Understanding such systems requires that we study how feedback mechanisms work and how the interaction of factors leads to emergent properties. The shared assumptions that form the basis of the organizational culture are by definition emergent as they only exist at the level of the organization. Although they are relatively stable, they are never static; they are in constant adaptation, and when driven by positive feedback mechanisms, they can go through a phase transition. This means that an organization which used to have strong ethical values can turn into one where unethical behavior is the norm. This phase transition is illustrated through the cases of Wells Fargo, Volkswagen and Boeing.

Illustrative Examples of How Organizations Lose Their Way

Wells Fargo, one of the largest banks in the United States, was hit with record-breaking fines in 2016 when it was uncovered that employees of the bank had opened more than two million unauthorized checking and savings accounts in the previous five years. This shocked the public not only because of the clear systemic level of fraudulent activity, but also because prior to the scandal, the bank had many accolades and was perceived as an organization with high moral standards, where engagement, integrity and reputation were supposedly important parts of the company culture (Tayan, 2019). An independent investigative report (Shearman & Sterling LLP, 2017) found that when the first signs of a systemic problems with the sales-driven culture of the community banking division emerged, there was a lack of willingness from senior leadership to address the issue. The growing number of terminations resulting from deceitful means to meet sales quotas was a clear indication that it is not only a few ‘bad apples’ that have engaged in unethical behavior, but that there was a system level problem with the incentives and employees’ relations to them. As the report
highlights however, “the culture of substantial deference accorded to the lines of business carried over into the control functions” (Shearman & Sterling LLP, 2017: 13). By keeping a transactional focus on individual complaints, the legal, audit, and HR departments were displacing and diffusing responsibility on an institutional level, thereby allowing the wrongdoing to spread and flourish. When it was not possible any more to turn a blind eye to widespread practices of opening unauthorized accounts, the communication about the topic still focused on minimizing and misconstruing the consequences of the criminal activity, by calling the instances ‘victimless crimes’ and arguing that they caused minimal or no ‘customer harm,’ where ‘customer harm’ was understood very narrowly as fees and fines paid by the customers because of the unauthorized accounts.

While Wells Fargo had to pay 185 million dollars in fines in 2016 (Tayan, 2019), the financial losses of Volkswagen dwarf this number, as the German carmaker paid 4,3 billion dollars in fines and penalties in the US after the extensive use of defeat devices in emission testing was admitted by the company (Volkswagen Group News, 2017). The devices were used as far back as 2006, but according to Ewing (2017), the root causes of the unethical practice can be traced back even further, and they are rooted in the authoritarian culture based on fear and a chauvinistic drive towards technical dominance and superiority. The highly paradoxical goals and communication at Volkswagen led to a constant dishonest effort in impression management combined with internal and external pressures cascading down the organization, and when individuals were trying to break these pressures, their attempts were met with strong negative feedback that kept the organization-wide unethical practices in place (Gaim et al., 2019). Such practices could thrive because of the culture that embraced the mechanisms of moral disengagement, such as the widespread use of an euphemism to refer to the defeat device as an ‘acoustic function,’ frequent moral justification of the fraudulent actions by protecting one’s job, and the displacement of responsibility by engineers (arguing that the decisions are made by management) and managers (saying that they were not well-informed about the technical details) alike (Ewing, 2017).

A more recent case is provided by Boeing, where the systemic problems with unethical practices have led not only to financial losses, but to the loss of human lives. The design flaw in the 737 max airplanes directly led to two deadly crashes despite the fact that there is evidence that the problem was recognized and flagged earlier by some employees (House Committee on Transportation & Infrastructure, 2020). It is certainly important to understand what went wrong from a technical perspective, but it is perhaps just as important to understand
how one of the largest and most prestigious aviation companies in the world could develop an organizational culture, where cost savings can overwrite safety concerns, and voices raised because of such concerns are met with efforts to downplay and disregard the potential consequences and ignoring or even punishing the whistleblower. According to the investigative report of the US Congress (2020) a merger in 1997 had a big impact on the company, and it shifted its priorities from engineering excellence towards making profit. “Those sentiments, according to many observers and current and former Boeing employees, infected the company. They point to that philosophy, which focused on financial benefit rather than technical solutions and innovation, as setting the stage for many of the issues that ultimately contributed to the crashes of the two 737 MAX aircraft” (House Committee on Transportation & Infrastructure, 2020: 36).

It may seem easy to explain what happened in these cases through the dominance of the profit motive in individuals over following ethical standards, but the people involved in wrongdoing rarely earned any significant extra money (Ewing, 2017; Tayan, 2019). The scale of direct involvement or being complicit in misconduct also invalidates the attempts of blaming ‘bad apples,’ and points to the systemic problems in these companies. The normalization of moral disengagement mechanisms as a basic underlying element of organizational culture emerges as a common theme, and therefore the analysis of such processes seems to be warranted.

**Implications for Research and Practice**

As implications and future directions for research, we first contend that much more emphasis needs to be put on a complexity-informed, systems-based approach to research in business ethics. The discussion presented in the current paper is only a small step in this direction, and more needs to follow. Interventions that aim to curb unethical behavior but are based on a mechanistic worldview are often ineffective or even counterproductive (Painter-Morland, 2008). In order to effectively contain unethical behavior, it needs to be understood how it unfolds over time and what factors play a role in this dynamic.

On a more specific note, the questions of how moral disengagement becomes pervasive in organizations and how it becomes generally accepted or endorsed by organizations deserves more attention as well. As den Nieuwenboer and Kaptein (2008) point out, such questions are difficult to answer with the help of the most commonly used research methods. Looking at the organization at one point in time and conducting a cross-sectional analysis (for example with the help
of surveys) can be a good start. However, when the aim of research is to capture mental processes, such as moral disengagement, cross sectional research designs are not the most suitable tools (Schaefer & Bouwmeester, 2021). To understand the adaptation that takes place, the tools of naturalistic inquiry, such as participant observation, narrative analysis and semi- or unstructured interviews are more suitable. Martin, Kish-Gephart, and Detert (2014) rightfully “urge organizational scholars interested in ethics to enter the field for extended periods, be it for ethnographic observation or to conduct field experiments” (Martin et al., 2014: 136).

Also, the processes to the opposite of transitioning into an unethical culture, i.e., moving to a generally ethical norm in an organization is possible and worth studying as well. Scott and Jehn (2003) highlight that not a lot of research is conducted on what happens to organizations after a debacle. The presented approach may be used for interpreting the process of how an organization moves to a more ethical state. For example, Volkswagen seems to be on the path to recovery through a strategy that relies on replacement, restructuring, redevelopment and rebranding (Welch, 2019), but it remains to be seen how the process of consolidating and restoring of an ethical culture takes place. Such a process could be interesting to follow and document and could further advance the literature on the success factors of ethical programs.

This paper offers practical implications as well. As it has been shown, moral disengagement should not only be addressed on an individual level, but also on the level of organizations. Schein (2010) discusses that deciphering an organizational culture is not an easy task, it requires a strong commitment and a lot of involvement from those who are engaged in such a process. Those who want to understand organizations’ culture should also look for clues for moral disengagement at all levels. In organizations where unethical behavior is rampant, the observable factors as well as the underlying ones are likely to show clear traces of embedded moral disengagement, such as widely used euphemisms for transgressive actions, a tendency to elude responsibility by referring to supervisors’ orders and widespread practices, or using performance and sales goals to justify almost any form of unethical means to achieve them. However, in organizations where unethical behavior occurs from time to time, it can be especially valuable to identify cultural elements that are in a developing phase. If self-generating processes are spotted early on, it can be easier to install counteractive and preventive measures that stop the positive feedback loop. Gebler (2006) presents a guide to finding risk factors in the organization’s culture. He also mentions that many leaders talk about the importance of culture, still usually not enough effort is put into its continuous assessment.
How Organizations Lose Their Way: Unethical Behavior and Moral Disengagement

Ethics programs built on codes and trainings work only if they are supported by an ethical culture. If artifacts are not aligned with the shared underlying assumptions in the organization, and change efforts do not address the emergent features of culture, most likely they are going to serve only as window dressing and what really happens in the organization will be vastly different from what is shown by compliance reports.

**Conclusion**

Corporate wrongdoing is a serious societal issue, and academic research in business ethics has contributed to our understanding on what personal and organizational traits are related to unethical behavior. However, the literature is dominated by the fundamental assumptions built on methodological individualism and a mechanistic worldview. As a result, most often only a static image of wrongdoing and its potential antecedents are described, leaving the dynamics of how unethical behavior becomes pervasive in organizations a poorly understood phenomenon. The main contribution of our paper is that it provides a complexity-informed perspective on unethical behavior, and its relationship with moral disengagement and organizational culture.

Previous empirical research has shown that moral disengagement is related to unethical behavior and several other negative organizational outcomes, but research related to organizational level moral disengagement is rare (Newman et al., 2020). Also, looking for the connections between unethical behavior and organizational culture has been discussed before (Treviño et al., 1998), but organizational culture in such a context is often understood as a static property, not as a dynamically evolving context that is continuously shaped by the members of the organization. A new way of understanding the dynamics of moral disengagement, organizational culture and unethical behavior is proposed through conceptualizing organizations as complex adaptive systems which evolve over time as a result of circular causality and feedback loops, and occasionally go through phase transitions. When moral disengagement is rare, it occurs as a deviant process, but if it is not controlled by negative feedback mechanisms in the organization, it can become accepted to use moral disengagement strategies to ‘cover up’ unethical actions. As a result, moral disengagement appears among the artifacts, and as the self-sustaining process continues it can be openly voiced and finally becomes part of the ingrained norms of the organization. It should be an important goal for organizations to fight against and reverse such processes, but this is only possible if we have a good understanding of how they unfold.


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