

## Chapter 66

# Why Do Good People Do Bad Things in Business?

### Lessons from Research for Responsible Business Managers

**Harvey S. James Jr.**  
University of Missouri, USA

#### ABSTRACT

*Promoting ethical behavior in business requires an understanding of why and when seemingly good people do unethical things. Research on this issue consists of theoretical models of moral decision-making and empirical studies of ethical sensitivity, attitudes, and behaviors of people in various contexts. These studies reveal that explanations of unethical conduct include considerations of a person's psychological disposition as well as the circumstances in which they live. They also identify general principles that explain why individuals might engage in unethical conduct. This chapter reviews studies conducted over the past 50 years and articulates lessons that can help business managers improve the ethical climate of business and ethical behavior of employees. While it does not break new ground, this discussion is important because it synthesizes scholarship in simple language accessible to both scholars and business professionals. This chapter also identifies directions for future research that can enhance and supplement these lessons.*

#### INTRODUCTION

One of the most fundamental problems in business ethics is understanding why good people do bad things. Business managers ask this when they discover evidence of lying, cheating or stealing among their employees, such as the case of an employee of a Minneapolis business accused of embezzling millions of dollars from his em-

ployer between 2005 and 2009 (Hanners, 2014). Stockholders and other business stakeholders ask this when they hear reports of malfeasance by business executives, such as the recent case of a pharmaceutical company executive accused of giving improper donations to Virginia politicians (Vozzella, 2013) or the case of an oil company executive controlling secret off-shore bank accounts (Ball, 2014). Consumers ask this when

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they learn that products they have purchased are tainted or defective because of employee or corporate negligence, such as the case of General Motors fined in 2014 for delays in issuing recalls of automobiles with faulty ignition switches (Puzanghera, 2014).

The question of why people do bad things, particularly in business, is important because business ethics scandals often, if not usually, involve seemingly ordinary people. They are colleagues, neighbors, acquaintances and sometimes even friends. Are people who engage in unethical behavior bad, or are they people who do good in most situations, but who occasionally succumb to ethical temptations? According to James (2006), Kish-Gephart, Harrison and Treviño (2010) and others who have studied this particular question, the answer must account for a complicated combination of individual, organizational and situational considerations.

The purpose of this chapter is to provide further insights by identifying clear and specific lessons about human behavior from experimental and other empirical research conducted by scholars since the mid-1960s. This is not an exhaustive review. Rather, this chapter presents a selection of studies that offer lessons about why and when people may engage in unethical behavior. Some of the studies surveyed here are well-known, while others are more contemporary. Nevertheless, all of them are worth reviewing for at least three reasons. Firstly, researchers are not always clear about the precise lessons that their studies provide about the circumstances contributing to unethical behavior, in part because they typically write to other scholars rather than directly to business managers. Thus, in this chapter I identify the implications of these studies in clear and simple language. Secondly, it can be helpful to have in a single source (a collection of) insights that might be known but which are scattered among a broad and growing literature. Thirdly, because unethical behavior continues to strike business, communities and societies at all levels (Ethics Resource

Center, 2013), it is clear that these lessons are not widely heeded, understood, respected, let alone followed. These lessons need repeating. Therefore, this review of the literature is both timely and essential. Business managers who understand and utilize these lessons might become more capable of promoting ethical behavior and discouraging unethical behavior within their business firms. Failing to heed these lessons might result in a continuing problem of people in business doing things they ought not to be doing.

This chapter will first provide a brief background of the issue and the literature, moving towards the assumptions of behavior, providing explanations for unethical behavior with seven lessons derived from the literature review, finally moving towards future research followed by conclusions.

## **BACKGROUND**

Although there can be many ways to think about and define unethical behavior, Armstrong (1977) suggests that unethical behavior is knowingly making a decision that harms others or that one feels, believes or knows to be irresponsible or wrong (see also Jones, 1991). Using this definition, the question of why good people do bad things is really a question of why people would knowingly make decisions that harm others or that they believe to be irresponsible or wrong.

There is an extensive body of theoretical and empirical scholarship seeking to understand and explain unethical conduct of people generally and of people in business in particular. The most important foundations for theoretical studies on ethical and unethical behavior are Kohlberg's (1969, 1984) theory of moral development and Rest's (1986) component model of moral behavior. According to Kohlberg, individuals progress through six stages of moral development, divided into three levels: (1) responding to external signals of reward and punishment, (2) conforming to social

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