Rules, standards, and ethics: Relativism predicts cross-national differences in the codification of moral standards

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ABSTRACT

This research examines the relationship between the code of ethics adopted by businesses in a country and the ethics positions of the inhabitants of that country. Ethics Position Theory (EPT) maintains that individuals’ personal moral philosophies influence their ethical judgments, actions, and emotions. The theory, when describing individual differences in moral philosophies, stresses two dimensions: relativism (skepticism with regards to inviolate moral principles) and idealism (concern for positive outcomes). Extending previous research that identified differences in relativism and idealism between residents of different countries and world regions, we examined the relationship between relativism, idealism, and the regulatory standards governing commercial activities of firms headquartered in Australia, Austria, Belgium, Canada, Hong Kong, Ireland, Japan, New Zealand, Spain, the UK, and the US. The results indicated that the level of relativism of a nation’s populace predicted degree of ethical codification of commerce in that nation. These findings suggest that the ethical conduct of business will be more closely regulated in countries where relativism is low (e.g., Australia, Canada) but less closely regulated in countries where the residents are more ethically relativistic (e.g., Hong Kong, Spain).

Keywords:
Business ethics
Cross-cultural values
Ethics codes
Ethics position

1. Introduction

Businesses that operate internationally deal not only with differences in languages, time zones, and governmental regulations, but also differences in business ethics. Strategies and procedures that may be considered appropriate, legitimate, or even laudable in one country may be condemned as morally unacceptable elsewhere. Bribery, nepotism, and exploitation of the members of less privileged classes are taken for granted in some locales, but in others these actions cross a moral boundary (e.g., Al-Khatib, Robertson, D'Auria Stanton, & Vitell, 2002; Kaikati, Sullivan, Virgo, Carr, & Virgo, 2000). In some countries individuals scrupulously conform to governmental regulations pertaining to business practices, but in others these rules are flouted or even nonexistent (Ferrell, Gresham, & Fraedrich, 1989). In some cultures employees think little of maximizing their personal outcomes at the expense of others and the company as a whole. They dally during work breaks, call in sick so they can enjoy some time off, take credit for work they did not do, and pilfer company supplies for use at home, but in other cultures such selfish actions are roundly condemned (Al-Kazemi & Zajac, 1999). In Germany and the U.S. contracts are viewed as moral pledges, and to break such a pledge is a sign of moral turpitude. But in Japan contracts are
practical commitments rather than morally charged prescriptions, and they often include a *jiji henco* clause permitting renegotiation should circumstances change (Mitchell, 2003).

A number of factors undoubtedly combine to create cultural variations in business ethics—religious traditions (e.g., Cornwell et al., 2005), cultural complexity (e.g., Trigger, 2003), historical and economic circumstances (e.g., Kluckholm, 1951), and cultural dimensions (e.g., individualism, power distance, masculinity, uncertainty avoidance, and long-term orientation; Hofstede, 1980)—but the current work examines one specific determinant of these variations in ethics: individual and cultural differences in ethical ideology. The analysis is based on Ethics Position Theory, or EPT, which assumes that individuals’ ethical judgments, actions, and emotions are influenced by their dispositional concern for others’ well-being (termed *idealism* in the theory) and their skepticism with regards to inviolate, trans-situational moral principles (termed *relativism* in the theory). Forsyth (1980, 1992) developed this theory to explain individual differences in morality, but researchers have identified consistent cross-national differences in idealism and relativism. Al-Khattib, Stanton, and Rawwas (2005), for example, discovered that residents of Saudi Arabia were significantly more idealistic than Kuwaitis or Omanis. Robertson, Gilley, and Street (2003), in a study of employees in various industries and organizations, reported that Russians were more relativistic than their counterparts in the U.S.

In the current study we investigated these country-by-country variations in idealism and relativism to determine if they are related to variations in regulatory standards pertaining to business ethics. Those conducting business in international contexts may seek to comport themselves in ways that are consistent with the ethical standards of the country where they do business, but as they move from one country to another they often encounter pronounced differences in regulations pertaining to such practices as bribery, the rights of employees, and the protection of the environment. Here we test EPT’s explanation of these variations by examining the codification of ethical standards in 11 nations: Australia, Austria, Belgium, Canada, Hong Kong, Ireland, Japan, New Zealand, Spain, the UK, and the US. We predict that (a) the codes that govern the ethics of business practices will be less extensive in countries where citizens are more relativistic and that (b) these codes will include human rights protections in countries where citizens are relatively idealistic.

2. Literature review

2.1. Ethics Position Theory

Ethics Position Theory is grounded in the work of psychologists Kohlberg (1976) and Piaget (1932). This theory assumes that moral actions and evaluations are the outward expression of a person’s integrated conceptual system of personal ethics, or *ethics position* (Forsyth, 1980, 1992). These positions, which result from a lifetime of experience in confronting and resolving moral issues, differ along two general dimensions: relativism and idealism. At one end of the relativism continuum, highly relativistic individuals are skeptical about the possibility of formulating universal moral principles, so they avoid basing their judgments on moral rules. In contrast, people who are low in relativism argue that right actions are those that are consistent with moral principles, norms, or laws. Turning to idealism, most ethics positions explicitly consider the relative importance of minimizing harmful, injurious outcomes. Again to seek the extremes, highly idealistic individuals “assume that desirable consequences can, with the ‘right’ action, always be obtained” (Forsyth, 1980, p. 176). Those who are less idealistic, in contrast, pragmatically assume that in some cases harm is unavoidable, and that one must sometimes choose between the lesser of two evils.

Forsyth (1980) developed the Ethics Position Questionnaire (EPQ) to measure both relativism and idealism. The ethical relativism scale of the EPQ includes items like “Different types of moralities cannot be compared as to rightness” and “What is ethical varies from one situation and society to another.” The idealism scale, in contrast, includes such items as “A person should make certain that their actions never intentionally harm another even to a small degree” and “If an action could harm an innocent other then it should not be done.”

This scale has been used to account for some of the variance in people’s responses to ethical challenges in a variety of business situations. Karande, Rao, and Singhapakdi (2002), for example, discovered that relativism predicted adherence to corporate ethics, whereas idealism was associated with corporate values. Barnett, Bass, Brown, and Hebert (1998) found that respondents with lower scores on relativism but high scores on idealism rated the actions of marketing professionals as more unethical than did other respondents. Tsai and Shih (2005) reported that managers who were more idealistic experienced greater role conflict, whereas increases in relativism were associated with reduced conflict. In general, relativism suggests ethical leniency, whereas idealism predicts more firm, and more judgmental, moral pronouncements.

Forsyth, O’Boyle, and McDaniel (2008) summarized the findings pertaining to cross-cultural variations in ethics meta-analytically, and related these differences to cultural values. They found that the residents of nations that Inglehart (1997), in his analysis of the World Values Survey, identified as adopting secular-rational values rather than more traditional cultural values had higher relativism scores. The residents of less relativistic countries—South Africa, Canada, the US, and Israel—in contrast, tended to express more orthodox, traditional values, such as importance of family values, patriotism, deference to authority, and rejection of such liberal social practices as divorce and abortion. Forsyth et al. (2008) also found that the residents of countries that were more production-focused and entrepreneurial, such as the US, Hong Kong, and China, had lower idealism scores. They concluded that the individuals in these countries are more prone to adopt a morality of expedience rather than caring (e.g., Schlenker, 2008).
2.2. Codes of ethics

In some cases decisions about what actions are morally right and which ones are wrong are guided by a code of ethics. We define a code of ethics to be a set of principles, both general and specific, that by identifying actions, emotions, and psychological states that are prescribed and proscribed, provides guidelines for actions in morally complex situations. The Code of Hammurabi, for example, forbid such behaviors as constructing a building with known defects and suggested types of punishments for violations. The Hippocratic Oath lists actions that physicians should avoid (such as using their position to seduce others) and those that they are charged to carry out (such as transmitting their knowledge to others). Influential historical figures, including Albert Einstein, Bill Gates, Helen Keller, and Eleanor Roosevelt, when reflecting on their lives and accomplishments, often stress their reliance on a set of principles that guided their moral choices across situations and opportunities (Allison & Gediman, 2007).

Morality is, in some respects, a problem of self-regulation, and morally mature adults increase their control over self-serving tendencies by embracing widely held principles. Individuals do not, however, always act in ways that are consistent with their personal code of ethics or those adopted by organizations or professions. Company representatives may know, for example, that the corporation’s code of ethics bans offering bribes to secure a contract, but when pressured to do so during negotiations they may reluctantly act in ways that are inconsistent with that code (Forsyth & Nye, 1990). A code of ethics, however, does make moral principles more explicit, and therefore provides a relatively bright line guide that clarifies what is expected in morally intense or ambiguous situations. Cognitively, moral codes may function as heuristics that provide more structure for making decisions in situations where choices could lead to negative outcomes, including harm to others and violations of cultural taboos (Sunstein, 2005).

Many businesses have developed and promulgated codes that will serve to guide corporate practices and policies. As Langlois and Schlegelmilch (1990, p. 522) note, these codes are variously termed corporate principles, rules of conduct, credos, codes of practice, or corporate philosophies, and most define “responsibility to employees, shareholders, consumers, the environment, or any other aspects of society external to the company.” Stohl, Stohl, and Popava (2009, p. 607) more recently defined a corporate code of ethics to be “formalized public statements of corporate principles and rules of conduct that govern interorganizational and intraorganizational practices and relations.” Kaptein and Schwartz (2008) concur, but they add that in most cases the code of ethics is generated internally rather than being externally imposed. For example, one of the best-known corporate codes was developed by Johnson & Johnson and expressed in their corporate “credo.” It states that employees’ first responsibility is “the doctors, nurses and patients, to mothers and fathers and all others who use our products and services,” as well as to the “men and women who work with us throughout the world,” the “communities in which we live and work,” and to stockholders (Foster, 1999, p. 640).

Langlois and Schlegelmilch (1990), in their study of codes in both U.S. and European companies, found that most provide standards pertaining to employee conduct, customer and shareholder relations, dealings with suppliers and contractors, political interests, and interactions with the community. They also reported, however, variations in the frequency of formal codes in companies headquartered in different countries. They reported that a smaller proportion of the French companies were code-based, compared to the UK and Germany, but that this difference was due, in part, to the tendency for companies with connections to the US to have codes. They also found that the codes differed in content across the three countries, with Germans emphasizing innovation as a value and the French, more than the British, stressing customer and shareholder relations. Schlegelmilch and Robertson (1995), in a survey of senior executives and CEOs of companies in the US, UK, Austria, and Germany, extended these results by finding that those in the US are more likely to consider personnel matters to be ethically sensitive.

Scholten and Dam (2007) extended this prior work in their study of over 2500 firms in 24 countries. These investigators based their analysis on the standards set by the Ethical Investment Research Service (EIRIS). EIRIS is an independent, nongovernmental organization that reviews the performance of corporations around the world with regards to environmental issues, human rights, and other forms of ethical conduct. For each company they review public statements about ethics as well as internal documents, and when necessary they contact the company directly to acquire the information pertaining to the firm’s code of ethics. Based on this information the EIRIS analysts rate each company on a number of attributes, including: Codification (Does the firm have a code of ethics?), Culture (Does the firm disseminate the code actively?), Policy (Has the firm developed the means to implement the code?), Corruption (Does the code directly address the issue of bribery and corruption?), and Human rights (Does the company code discuss ways to operate ethically in countries where human rights are most at risk?).

Scholten and Dam (2007), drawing on the findings reported by EIRIS, identified substantial differences between businesses in the different nations surveyed by the EIRIS. Companies headquartered in the US and Australia tended to have more extensively codified systems of ethics than those from Hong Kong, Singapore, Luxembourg, the UK and Japan, and some of the data suggested that the cultural dimension of individualism was associated with increased codification (Hofstede, 1980). The more individualistic the culture where the firm was located, the more extensive its ethics code—with the exception of elements pertaining to human rights (Scholten & Dam, 2007).

3. Research hypotheses

Researchers have documented the considerable variability in ethical beliefs and standards that results, in many cases, in misunderstandings and confusions about what is morally acceptable in multinational business dealings. Research based on
Hypothesis 1. The greater the degree of relativism expressed by residents of a country, the less likely the businesses in that country will have developed an extensive code of business ethics.

Idealism, in contrast to relativism, summarizes differences in concern for achieving positive consequences and avoiding harm. The EPQ asks respondents if they agree with such items as “It is never necessary to sacrifice the welfare of others,” and high scorers respond with greater moral condemnation to actions and events that result in injury to others. In countries where the citizens tend to agree with such items, their businesses should stress safeguarding human rights, including the humane treatment of workers and fair compensation practices. Thus we predict:

Hypothesis 2. The greater the degree of idealism expressed by residents of a country, the more likely the businesses in that country will include provisions pertaining to human rights in their code of business ethics.

4. Methodology

4.1. Participants

The participants in this study were 23,477 residents of one of 11 different countries (Australia, Austria, Belgium, Canada, Hong Kong, Ireland, Japan, New Zealand, Spain, the UK, and the US) and 2215 businesses located in these same nations. We studied these countries because the businesses in these nations have been evaluated by the Ethical Investment Research Service (EIRIS) and so are the ones for which data about ethics codes are available. We studied the residents of these countries by gathering information about average levels of idealism and relativism from previously published studies that administered the Ethics Position Questionnaire (EPQ) in these countries.

4.2. Assessment of ethics position

The Ethics Position Questionnaire (EPQ) consists of two 10-item scales that measure idealism and relativism. For all items, subjects indicate degree of agreement or disagreement using a 9-point scale ranging from “completely disagree” to “completely agree.” Thus, scores on both scales can range from 10 to 90. Evidence indicates that both scales are internally consistent, stable over time, orthogonal to one another, and only slightly correlated with social desirability (Forsyth, 1980; Forsyth et al., 2008).

Following procedures described in Forsyth et al. (2008), we used traditional meta-analytic search methods to identify studies that had administered one or both scales of the EPQ in a unique sample. Articles that used a non-English version of
the EPQ were included, as were studies that used shorter rating scales than the 9-point scale in the original version (Forsyth, 1980). To adjust for differences in scales, we shifted the results to a common metric by dividing the means reported by each investigator by the maximum score possible given the particular scale length used in that study. For instance, a mean of 4.5 for idealism (or 45, if totals were used), in a study using 9-point scales would be converted to .64. Therefore, all reported means could range from 0 to 1, with higher scores indicating greater idealism and relativism. Studies were only excluded from the analysis if they (a) did not provide information about mean idealism and relativism (and the authors, when contacted, could not provide that information); (b) based scores on a very small number of items (fewer than 6) of the EPQ; (c) combined data drawn from more than one country.

This search yielded indicators of the mean EPQ scores from samples of 23,477 respondents. Table 1 presents details about the number of individuals drawn from each country, in the column labeled \( \text{EPQ n} \). The entries in that table indicate that the majority of the participants were residents of the US, Australia, and Hong Kong.

### 4.3. Assessment of ethics codes

We indexed the extensiveness, application, and content of each country’s ethical codes, as applied to businesses, by examining the statistical information provided by the Ethical Investment Research Service (EIRIS). As noted earlier, EIRIS examines the extent to which corporations establish and strive to act in ways that are consistent with positive moral practices. The EIRIS bases its analysis on public documents about companies, and in some cases surveys specific companies for information about their ethical practices and outlooks. The EIRIS indexes a number of aspects of a company’s ethics practices, including governance (corporate board structure, codes of ethics), human rights, environmental policies, and stance on particular contemporary issues, such as tobacco, alcohol, and involvement with arms industries.

We focused on the elements in the EIRIS indices described by Scholten and Dam (2007) in their analysis of codes of ethics: degree of codification, culture, implementation, corruption, and human rights. Codification is the extent to which the firm evidences an explicitly defined code of conduct or ethics. In the EIRIS index, codification can vary from “none,” as in situations where the company has no code whatsoever, to “limited,” “basic,” “intermediate,” and “advanced.” Culture concerns the extent to which the code is shared widely with all employees and ranges from “no evidence of communication” to “wide dissemination.” Policy pertains to the firm’s documentation of its system of implementing and enforcing the code, and ranges from “none” to “advanced.” Corruption is based on the extent to which the code includes an explicit discussion of prohibited forms of corruption in the code.
5. Results

5.1. Cross-cultural comparisons of codes

Table 1 presents the descriptive statistics for the 11 countries used in the analysis, including scores on the extensiveness and content of their ethics codes, meta-analytically derived means of relativism and idealism, and the number of individuals and firms that contributed to each country’s aggregated index.

Inspection of the country-level means for the five indexes of degree of elaboration of codes of ethics suggests, as Scholten and Dam (2007) reported, consistency across four of the five code variables. Countries tended to have similar scores for codification, culture, policy, and corruption, but their scores for human rights were not related to the other four indexes. Correlations among the four scales ranged from .86 to .98 (ps < .05), whereas the strongest correlation between human rights and these variables was only .25 for codification, and this correlation was not significant. In consequence, countries with positive scores on one indicator of complexity of ethics code tended to have elevated scores on other indicators, save human rights.

We used a K-clustering iterative procedure to identify natural clusters of countries within the data based on the five ethics code scores. This analysis converged to two clusters after 4 iterations, with Australia, Belgium, Canada, New Zealand, and the US falling into one cluster, and the others into a second. A one-way ANOVA indicated that the countries in the first cluster had more positive scores on four of the five ethics code variables (all ps < .01), with human relations the only variable that did not differ between the clusters.

5.2. Hypothesis 1: Relativism and code of ethics

As Table 1 indicates, the mean for relativism was .60 (SD = .079) and the mean for idealism was .71 (SD = .078). Canada was the least relativistic nation (.45), whereas the UK was the highest (.69). Belgium was the lowest in terms of idealism (.59) whereas as the UK was the highest (.79).

Hypothesis 1, which predicted an inverse relationship between relativism and the extensiveness of the codes of business ethics for firms headquartered in that country, was confirmed through ANOVA and correlational analyses. First, a one-way ANOVA with country’s ethics code cluster serving as the independent variable and relativism the dependent variable indicated that Australia, Belgium, Canada, New Zealand, and the US were significantly less relativistic than Austria, Hong Kong, Ireland, Japan, Spain, and the UK; \( F(1, 9) = 16.93, p < .01 \). The relativism mean for the first cluster of countries was .54 (SD = .054), and .69 (SD = .044) for the second set.

![Fig. 1. Scatterplot of country-level scores for degree of codification of ethics standards and relativism.](image-url)
The correlations in Table 2 further confirm the strength of the relationship between relativism and the extensiveness of corporate ethics codes. As the ANOVA findings suggested, a nation’s average relativism was negatively correlated with degree of codification ($r = -0.66$), culture of ethics ($r = -0.62$), the promulgation of policies, ($r = -0.67$), and position on such forms of corporate corruption as bribery ($r = -0.65$) taken by corporations within the country. Fig. 1 illustrates this relationship with one of the indexes of ethics—codification. The 5 countries with firms that had better developed codes of ethics were also lower in relativism: Canada, Australia, Belgium, US, Austria, and New Zealand. Four countries with less developed codes of ethics—Spain, UK, Hong Kong, and Ireland—were higher in relativism, with Japan and Austria falling intermediate between these two clusters.

5.3. Hypothesis 2: Idealism and code of ethics

We predicted that idealism would be related to the extent to which the codes of ethics of firms in a particularly country stressed human rights, but this hypothesis was not supported. As Table 2 indicates, idealism was not significantly correlated with any of the variables that represented the extent to which a country’s firms had elaborate ethical codes.

6. Discussion and implications

Are the codes of ethics adopted by businesses in a country related to the ethics positions of the inhabitants of that country? We examined this question by first indexing the average degree of relativism and idealism reported by the inhabitants of 11 countries, and then correlating these indices with documented differences in the ethics codes of the businesses within each country. Our findings partly supported our hypotheses, for businesses in countries that were more relativistic—in other words, surveys conducted in those countries suggested that its residents believed more strongly that individuals’ personal values and perspectives should guide their moral choices, rather than universal ethical principles—were less likely to have (a) adopted a code of conduct or ethics, (b) communicated standards pertaining to ethics to its employees, (c) established procedures for dealing with lapses in moral conduct, and (d) included a policy pertaining to bribery and other forms of corruption in its ethical guidelines. These countries included Spain, the UK, Hong Kong, and Ireland. In contrast, businesses headquartered in countries where residents were less relativistic operated with more well-developed codes of ethics. These countries included Australia, Austria, Belgium, Canada, New Zealand, and the US.

The level of moral idealism expressed by the residents of a country did not, however, predict the degree of codification of the firms located in that country. Nor did idealism predict the one aspect of ethics that focused more specifically on the consequences of one’s actions for others: the codification of standards to follow when conducting business in countries with an uncertain record of respecting the rights and well-being of workers (e.g., Burma, North Korea, Zimbabwe).

In retrospect, this lack of relationship can be attributed to methodological shortcomings of the current work. The one variable in the data set most closely related to consequences—human rights—may not have adequately documented corporate idealism. Idealism pertains to concern for the consequences of one’s actions, with a stress on avoiding harm to others, and one’s policies with regards to labor rights in foreign countries may be determined more by political and social policies rather than corporate values. Moreover, only firms with international operations were likely to have included information related to this concern in their ethical codes, and these firms may not be representative of the country’s overall position on idealism. Last, the lack of relationship between idealism and these measures of ethics may be due the reduced range of scores on idealism within the countries sampled. Although the 11 countries studied varied substantially with regard to their codification of ethics, they did not vary substantially in idealism—only Australia and Belgium had low scores on idealism, whereas only Spain was relatively high in idealism. New Zealand, Ireland, and Hong Kong had the lowest scores on the ethics of Human Rights, but clustered in the mid-range in idealism.

Other limitations in the methods we used in this study should not be disregarded. We defined entire nations’ moral position on the basis of responses of a small subset of the residents of those nations, and so were not sensitive to the many unique aspects of the philosophies within these nations. The results must also be interpreted with caution given the psychometric weaknesses of the EPQ and the coding methods used by the EIRIS. These instruments were designed to measure qualities of specific individuals and businesses, but in this study we aggregated those scores to yield country-level indices. The findings we report are based on 23,477 individuals and 2215 firms located in 11 different countries, but we would be more confident that the correlations reflect a generalizable relationship between ethical codes and relativism if these statistics were based on more representative samples of individuals and firms and multiple studies. Although the number of studies included in some cases was less than ideal, it should be noted that cell stability with entire samples would be more confident that the correlations reflect a generalizable relationship between ethical codes and relativism if with any of the variables that represented the extent to which a country’s firms had elaborate ethical codes.

wrong (relativism) and concern for outcomes for oneself and for others (idealism). In this study only relativism proved to be linked to the ethical codes adopted by the firms in those countries, but it is too soon to discount the impact of idealism on business ethics. Idealism may not influence the content of the codes of ethics, but it may determine how businesses respond to violations of their codes. We await future research to determine if employees who act in ways that are inconsistent with a company ethics policy, and in so doing create negative consequences for others, are judged more harshly in more idealistic cultures.

These findings have numerous theoretical and managerial implications for those who conduct their work in international business contexts. Because ethical standards are often deeply ingrained by culture and socialization, individuals not only find the marked differences in ethics they encounter in the course of international transactions surprising, but also bewildering. The current work offers a means of conceptualizing and simplifying those variations by considering how specific moral practices reflect a culture’s orientation with regards to idealism and relativism. International businesses require practical information about cross-cultural variations in ethics, and Ethics Position Theory offers a useful means of sorting out these myriad moral standards and practices into a smaller set of key distinctions. In addition, the findings of this particular study—that relativism is associated with ethics codes—suggest when and why it will be crucial to develop and disseminate a corporate ethics policy. In contexts marked by high levels of moral relativism corporations may be able to conduct their business without considering how their practices and strategies would be judged, ethically, both by their own employees and by the public, but as relativism declines business leaders would be well advised to spend time developing, and promulgating, a coherent statement of the moral principles that guide them as they conduct their business. Business, like all human enterprises, is guided by a set of mutually binding working rules or principles that define both the form and the process of transactions between principals (Holt, 2006). Corporations are committed, fundamentally, to the goal of maximize profit and yield to owners and shareholders, but they do not operate in isolation from an interpersonal context. Just as individuals cannot unrelentingly pursue personal gain heedless of the costs their self-serving actions inflict on others, so businesses must be mindful to align their practices and procedures with accepted ethical standards.

References


