Baltic Journal of Management

Moral judgment: a comparison of Latvian and US business persons

Charles G. Smith #rika Šumilo Viesturs Pauls Karnups

Received August 2008
Revised January 2009
Accepted January 2009

Moral judgment: a comparison of Latvian and US business persons

Charles G. Smith
Otterbein College, Westerville, Ohio, USA, and
Ērika Šumilo and Viesturs Pauls Karnups
Institute of International Relations, University of Latvia, Rīga, Latvia

Abstract

Purpose – Given system-wide lapses in moral decision making in large US corporations and the inherited corruption from formerly planned economies, the development of moral reasoning is an important issue for business educators in the USA and Latvia. The purpose of this paper is to present a comparison of Latvian and US business persons.

Design/methodology/approach – Kohlberg's *et al.*, theory of cognitive moral development (CMD), as operationalized by Rest as framework to study the antecedents of moral judgment in both lands. Survey data from 340 employed MBA students as a proxy for current and future business leaders are used. A total of 18 scenarios are reduced to four unique components, which are regressed on measures of CMD, Country of Respondent, and Moral Philosophy to test three hypotheses. Gender and age are added as controls.

Findings – CMD and Country of Respondent are strongly associated with increased moral judgment, while Moral Philosophy is less influential. In addition, the positive functional relationship between CMD and moral judgment exists in both countries but at lesser absolute values in Latvia. Findings also suggest that the efficacy of the independent variables varies with the issues at hand. Interestingly, moral dilemmas concerned with marketing strategies appear to be immune from moral reasoning. This indirectly gives support to Jones' concept of moral intensity and future research may wish to continue this line of inquiry as well as expand the comparison to other European Union countries.

Originality/value – The paper is the first to use the defining issues test to study levels of CMD in the Latvian business community.

Keywords Ethics, Cross-cultural management, Employee relations, Latvia, Baltic States, United States of America

Paper type Research paper

Our paper empirically tests a number of variables posited as influences on moral judgment in the USA and in the Republic of Latvia. Our focus is on the development of moral judgment in transitioning economies. With the collapse of the Soviet Union and its satellites the policy debate over appropriate systems of political economy has shifted from disputations over command versus open economies to disputations over the exact structure of the market and the degree to which government should intrude. Having been replaced with variants of market economies, command economies are no longer central to this debate. And although in truth a mixed economy, because the USA is perceived a bastion of free market capitalism and because it is the pre-eminent economy in the world today, it is used as a point of comparison from which to contrast the development of moral judgment in the former Second World. To this end Latvia's transitioning economy offers a unique setting to evaluate moral judgment for a number

Baltic Journal of Management
Vol. 4 No. 2, 2009
pp. 188-205

1746-5265
DOI 10.1108/17465260910958809

of reasons. First, as one of the less developed members of the European Union (EU) rapid economic growth places added stressors on policy makers. Second, its geopolitical position on the Baltic caught between German, Swedish, and Russian expansionist waves provides an historical setting sandwiched between cultural forces of both East and West. Finally, Latvia is one of the more Russified areas of Eastern Europe with a resulting potential for ethnic conflict, at least among older generations.

Theory suggests that moral behavior is the result of four psychological processes – moral sensitivity, moral judgment, moral motivation, and moral character (see below). We are concerned with the second process, moral judgment and its antecedents, cognitive moral development (CMD), cultural background, and personal moral code. The dominant view of moral judgment holds that the quality of such judgment is improved as one ages chronologically and progresses through a number of cognitive moral stages. As people journey through these stages proper behavior initially is determined by external rules and standards evolving ultimately, if infrequently, to proper behavior being governed by internal control. Kohlberg identifies six stages of moral development through which one progresses. These are first to avoid physical consequences, then to realize needs, next to gain approval from others, then to comply with laws and rules, fifth to abide by social contracts, and finally to adhere to universal principles of justice, fairness, and human rights. We study the relationship of moral development on the quality of moral judgment in an established and in a transitioning economy. Further, we investigate this relationship in two distinct cultures to see if this progression is universal or parochial in character. In addition to one's psychological development and the country's level of economic development, we are also concerned with the influence of one's personal ethical code on moral judgment. To study this, our analysis includes a measure of one's moral philosophy that captures a predisposition toward the utilitarianism of mill or the moral rights of Kant.

Our study adds to an understanding of ethical business decision making in a number of ways. First, to our knowledge no prior work has employed Kohlberg's theory of CMD and the defining issues test (DIT) to business persons in the Baltic region. Second, comparing moral judgments in Latvia with that in the USA offers insights into transitioning economies and the 70 impact of a totalitarian political system and a planned economic system. Third, an examination of the moral judgment of business persons in the USA will promote better ethicality in the American business community. Fourth, our focus on Latvia adds to the cross-cultural management literature. Finally, including demographic variables as controls, while not central to our study, does add to an understanding of demographic influences in a geographic region not so popular with scholars.

We begin with a brief review of the literature on business moral decision making in general and moral development and moral judgment in particular. From this several hypotheses are identified as impacting the quality of moral judgments. The methodology section includes a description of variable operationalization, data collection, model specification, and data analysis. After the results section, the paper discusses the findings and finishes with a number of conclusions and suggestions for future research.

1. Literature review and hypothesis

Conceptualized at various levels and employing a variety of variables previous work has offered a number of business ethical decision-making models (Ferrell and Gresham, 1985; Fritzsche, 2005; Gautschi and Jones, 1998; Hunt and Vitell, 1986).

A review of their specifics is beyond our paper's scope, however suffice is to say we agree with Gautschi and Jones (1998, p. 206) who offer, "[. . .] because the theory inherent in each model rises only to a very general level, the models fail to advance our understanding of the ethical content of behavior". Fortunately, they find relief from this failing with the four-stage model of James Rest. For three reasons we agree. First, it is comprehensive, second it is given to operationalization, and third it is thoughtful. We look to a later iteration of Rest's framework; specifically, Rest *et al.* (1999, p. 101) who theorize that moral behavior is a function of four related psychological constructs comprised of their own concepts and variables:

(1) *Moral sensitivity.* It is the initial recognition that there is a moral problem.

(2) *Moral judgment.* An evaluation of the dilemma and possible resolutions that results in a judgment about the best action to take. The wisdom to identify the moral choice.

(3) *Moral motivation.* The intention to act to implement the moral choice.

(4) *Moral character.* The courage to take necessary actions to implement the choice.

We agree with Loe *et al.* (2000) and O'Fallon and Butterfield (2005) that empirical work is required on existing decision theory, however, while data limitations prevent a test of Rest *et al.* (1999) entire theory we do investigate variables central to moral judgment. We choose to focus on moral judgment because of our belief that sound moral reasoning is necessary for sound moral behavior. Granted one must be inclined, and have the courage to act, however, actions taken must be first and foremost the result of sound moral reasoning if ethical behaviors are to be expected. The variables relating to moral judgment studied here include one's level of CMD, nationality, and individual moral philosophy. Additional work on moral judgment as well as moral sensitivity, moral motivation, and moral character are left to future research.

1.1 Cognitive moral development

There are two competing approaches to moral development. Earlier research in social psychology states that moral judgment is formed with the internalization of norms specific to various societies. Gielen and Markoulis (1994) write that this is accomplished via "a process of social reinforcement, imitation of culturally structured behavior, and identification with authority figures such as parents." Kohlberg counters with a cognitive-development theory which focuses on individual progression through three levels of moral development – preconventional, conventional, and postconventional – each with two stages culminating in a principled justification for individual behavior irrespective of cultural idiosyncrasies Gielen and Markoulis (1994). The debate, therefore, centers on the question, "Is moral judgment universal or parochial?" Kohlberg believed his stages of moral development are universal, "Almost all individuals in all cultures go through the same order or sequence of stages of moral development, though varying in rate and terminal point of development" (Kohlberg, 1971, p. 176).

Supported by empirical studies, there is a predisposition toward Kohlberg in the business ethics literature. However, it is James Rest and his colleagues who made (CMD) research feasible for business educators. Kohlberg tested his theory via data collected through structured interviews, an enormously expensive and time consuming

methodology. To facilitate CMD research, Rest developed the DIT, a paper and pencil instrument requiring evaluation by respondents of a number of scenarios which capture the level of respondent's CMD. Thirty-five years of research have demonstrated the reliability and validity of the DIT.

It is noted that CMD as posited by Rest *et al.* (1999) and measured with the DIT, while an extension of Kohlberg's theory, has a number of important modifications. Of prime interest here is their reduction of Kohlberg's fixed six stage development model to a more fluid three stage approach. For Rest and his colleagues one's moral development progressed in waves back and forth through three schemata, personal interest schema, maintaining norms schema, and postconventional schema (For a discussion of the difference between "stage" and "schema" see Rest *et al.* 1999 Chapter, 6). As Rest *et al.* (1999, p. 57) observer, "The major legacy of Kohlberg is the starting point that he gave for research in morality: a cognitive constructivist approach that is developmental, in which one starts with the person's internal construction of the social world, emphasizing the individual's cognition and moral judgment". In conclusion, Rest *et al.* (1999) build on Kohlberg's work and develop a method to more easily capture CMD.

Prior work on CMD supports the link between moral development and moral judgment. Loe *et al.* (2000) identified six studies that evaluated CMD, however, only one related it to moral judgment; it concluded there was a positive relationship. An earlier literature review found no studies on moral development (Ford and Richardson, 1994). However, O'Fallon and Butterfield (2005, p. 392) reviewed 23 studies and found a positive relationship between CMD and moral judgment. They concluded, "Although there have been a few notable exceptions, the research generally suggests a positive relationship between CMD or ethical judgment and ethical decision making".

Returning to the generalizability of CMD, Rest *et al.* (1999) summarized several reviews of the appropriateness of extending Kohlberg's theory to different cultures. Snarey and Keljo (1991) and Snarey (1985). Their conclusion rejects cultural relativism and despite differences in ontologies finds a unifying dimension in various religious traditions based on human dignity, solidarity, and justice, "Moral and cultural relativists have failed to perceive the underlying archetype that unites the moral imagination of men and women living in different places at different times" (Gielen and Markoulis, 1994, p. 87). This conclusion is supported by Roetz (1996) who studied the Confucian era in China and concluded that Kohlberg's scheme is "Not simply a product of modern Western male, educated middle-class ideology [. . .] " (Rest *et al.*, 1999, p. 128).

Rest *et al.* (1999) suggest that if Kohlberg were not transferable it should be readily apparent in current research but this is not the case and while the debate continues considerable evidence suggest that Kohlberg's theory is universally applicable:

H1. Increased levels of moral development are associated with higher levels of moral judgment.

1.2 Country of respondent

There may be additional considerations when evaluating moral development in the former Communist Block. Riha's thoughtful work on morality in transitioning economies suggests added difficulties in former socialist countries when compared to those in the West:

> While it can be agreed that the intellect is free to construct models of social and economic systems *ad abstractum* on the basis of rationally thought out principles, it must be realized that a model's objectification would be constrained by both cultural and economic circumstances. Therefore, it is not unexpected that the outcomes of attempts to fashion the socio-economic system in the former socialist countries by transplanting the political and economic principles of mature capitalism be disappointing. Instead of an order, there is but the general dissolution of values and disintegration of standards culminating in chaos and anarchy (Riha, 1994, p. 23).

And while exalting the virtues of an unfettered market, Western consultants failed to appreciate the moral climate into which this market was constructed. Cowed into compliance by the instruments of the totalitarian state average people stole from the state as a simple way to survive. Bribery and corruption, modeled by the socialist leadership themselves, were pervasive and an acceptable mode of operation (Karklins, 2005). Transparency International lends support to this conclusion. Although designed specifically to capture governmental bribery and corruption, a close link to business practices, their Corruption Perception Index generally ranks Western countries higher than former socialist countries. Specific to our study the USA ranked 20th, 20th, 17th, and 19th, for the years 2007, 2006, 2005, and 2004 compared to Latvia's 51st, 49th, 53rd, and 57th, respectively (Transparency International, 2008).

Therefore, despite a similar intellectual heritage in the Enlightenment, arguably peoples in Eastern Europe demonstrated less moral maturity under communism than that observed in the West (Riha, 1994):

H2. Levels of moral judgment and moral development will be less advanced in Latvia than in the USA.

1.3 Moral philosophy

Kohlberg's theory is modified in another fundamental area. Where he offers both a psychological process describing the mechanics of moral development and a philosophical justification validating one particular normative approach – in his case the social justice philosophy of John Rawls – Rest *et al.* by contrast, excise the normative dimension from their approach focusing instead on the psychological process of moral development (noted above) which in turn is open to many philosophical viewpoints. That is, within one's particular stage of psychological moral development there also exists a philosophical or normative justification for behavior. Therefore, a better understanding of one's predisposition to normative theories will heighten insight into the broader concept moral judgment. One's predisposition to moral philosophy is posited as another variable in the reasoning process. Two approaches dominate moral philosophy in the West, the first flowing from the work of John Stuart Mill and the second from Immanuel Kant. Fritzsche (2005, Chapter 3) defines them:

(1) *Consequentialist.* Consequentialist principles, also known as teleological principles, focus on the outcome or end results of a decision.

(2) *Nonconsequentialist.* Nonconsequentialist or deontological principles consists of sets of rules. The outcome of a specific decision is irrelevant. One is charged with adherence to the rule or doing their duty.

However, prior work has conceptualized these in a number of different ways. Forsyth (1992) put it in terms of relativism versus idealism and in their theoretical article Hunt and Vitell (1986) suggested people evaluate alternatives based on their deontological or teleological philosophical beliefs. Brady (1990, Chapter 7) believes people have a base philosophical approach either formalist or utilitarian which governs actions, however, exceptions may arise which directs one to shift to the other approach.

Wheeler and Brady offer: empirical work on moral philosophy including Fritzsche and Becker (1984) find that managers use utilitarianism as the dominant moral philosophy when making decisions. On the other hand, Brady and Wheeler (1996) concluded respondents are inclined more toward formalist solutions and justifications to ethical problems than previously thought. Akaah (1997) found marketing professionals use deontological considerations first and teleological second in their reasoning. Finally, O'Fallon and Butterfield (2005) examined 42 studies in their review article and concluded that whether moral philosophy is categorized as deontological versus teleological or idealism versus relativism, deontology and idealism are positively related to ethical decision making while teleology and relativism are related to less ethical behavior:

H3. Respondents whose personal moral philosophy is nonconsequentialist or deontological will have higher moral judgments.

2. Methodology

2.1 Dependent variables

A total of 15 short scenarios used by Wood and Longenecker (1988) as modified by Emerson and Conroy (2004) were used. To this, we added three additional scenarios concerned with marketing. Table I presents the scenarios. These scenarios used a seven point Likert scale coded in descending order of moral behavior, 1 – Never acceptable and 7 – Always acceptable.

To reduce the data to a manageable overview we follow the lead of Smith and Oakley (1996), who used principal component analysis to assign Longenecker's scenarios to three factors – financial, business management, and social. By contrast, our 18 vignettes loaded on four common factors (see Table II). Each of the common factors is treated as a dependent variable and operationalized as a scale variable of the loading vignettes.. The factors and their vignettes are:

(1) *Money issues* – Vignettes 1, 4, 5, 6, 7, 8, and 13.

(2) *Public policy issues* – Vignettes 2, 3, and 10.

(3) *Marketing issues* – Vignettes 12, 14, and 15.

(4) *Discrimination issues* – Vignettes 9 and 11.

Common practice in exploratory social science research is to exclude variables with high cross loadings, therefore, Vignettes 4, 12, and 16 were dropped from the analysis. Confirmatory factor analysis is not appropriate here because we added additional scenarios to Longenecker's design and we are not hypothesizing an *a priori* factor model nor testing hypothesis about such a factor model. Finally, the reader should note that all of the factors relate to the work setting and while there is a factor labeled "money issues" it relates only to money issues at work and not, for example, personal finance. This is so for all the factors.

Vignette 1	An executive earning 100,000 dollars a year pads his expense account by 3,000 dollars a year
Vignette 2	In order to increase profits of the firm, a general manager used a production process that exceeded legal limits for environmental pollution
Vignette 3	Because of pressure from his brokerage firm, a stockbroker recommended a type of stock that he did not consider being a good investment
Vignette 4	A company paid a 350,000 dollar "consulting" fee to an official of a foreign country. In return, the official promised assistance in obtaining a contract that would produce 10 million dollars worth of profit for the contracting company
Vignette 5	A company president found that a competitor had made an important scientific discovery that would sharply reduce the profits of his own company. He then hired a key employee of the competitor in an attempt to learn the details of the discovery
Vignette 6	A highway-building contractor deplored the chaotic bidding situation and cutthroat competition in his industry. He, therefore, reached an understanding with other major contractors to permit bidding which would provide them with a reasonable profit
Vignette 7	A company president recognized that sending expensive Christmas gifts to purchasing agents might compromise their position. However, he continued the policy since it was common practice and changing it might result in a loss of business
Vignette 8	A corporate director learned that his company intended to announce a stock split and increase its dividends. On the basis of this information, he bought additional shares and then following the announcement sold them for a gain
Vignette 9	A corporate executive promoted a loyal friend and competent manager to the position of divisional vice-president in preference to a better qualified manager with whom he had no close personal ties
Vignette 10	An engineer discovered what he perceived to be a product design flaw that constituted a safety hazard. His company declined to correct the flaw. The engineer decided to keep quiet rather than taking his complaint outside the company
Vignette 11	An employer received applications for a supervisor's position from two equally qualified applicants but hired the male applicant because he thought that some employees might resent being supervised by a female
Vignette 12	As part of the marketing strategy for a product, the producer changed its color and marketed it as "new and improved," even though its other characteristics were unchanged
Vignette 13	An owner of a small business firm obtained a free copy of a copyrighted computer software program from a business friend rather than spending 500 dollars to obtain his own program from the software dealer
Vignette 14	A marketing executive continued to sell a fertilizer after rumors came to light that the government might declare the fertilizer a carcinogen
Vignette 15	A fast food restaurant implemented a costly media campaign using recognizable cartoon characters directed at adolescent children in order to place pressure on parents to buy its products

Table I.
Included dilemma vignettes

Component	Total	Initial eigen value, percentage of variance	Cumulative (%)
1. Money issues	5.186	28.810	28.810
2. Public policy issues	1.930	10.723	39.533
3. Marketing issues	1.556	8.642	48.175
4. Discrimination issues	1.037	5.762	53.937

Table II.
Factor analysis total variance explained

Notes: Extraction method: principal component analysis; the rotated component matrix is available from the authors

2.2 Independent variables

Stage of moral development was captured with the short form DIT. The surveys used in Riga were translated by persons fluent in both Latvian and English. One now living in Riga was raised bilingually in Australia and the second was raised in Riga. Money amounts were adjusted on the survey to represent like purchasing power, however neither translator believed additional modifications to reflect cultural differences necessary. Raw data were processed by the University of Minnesota and a *P*-score was input for each respondent. The *P*-score reflects the degree to which the respondent engaged in post-conventional thinking and is the customary measure employed when using the DIT. Additionally, using the more popular *P*-score as opposed to other measures generated by the DIT makes our result more easily comparable with other research:

Country – a dummy variable coded "0" if USA and "1" if Latvia.

Moral philosophy – Brady (1990) Survey of Ethical Theoretic Aptitudes was used to capture respondent's predisposition to a formalistic or a utilitarian moral philosophy. This is a 15 question instrument that forces respondents to select various aptitudes which are then seen as representing one's moral foundation. The result is a score ranging from -8 – "ice cold formalist" to $+7$ – "flaming utilitarian."

2.3 Control variables

Gender – a dummy variable coded "0" if female and "1" if male.

Age – respondents age in years.

The literature is replete with studies investigating the influence of demographic variables on business ethics. And while we are primarily concerned with the three variable identified above we do recognize their importance by including them as controls. However, we leave further inquiry into their significance in the Baltic region to future research.

2.4 Sample

This is an exploratory inquiry using survey data collected from students in graduate level business courses at an institution of higher education in Latvia, and another in the USA. A total of 340 usable surveys were obtained during the fall 2004 term in both countries.

The use of students is appropriate in this case for a number of reasons identified by previous scholarship (Randal and Gibson, 1990; Weber, 1992). First, the current study concerns influences on the moral judgment of business leaders. Our sample is comprised of graduate level students who are currently working in business organizations and who study in order to promote into higher levels of management. Therefore, they reflect populations of interest, specifically, current business employees and future business leaders. Second, variables used to operationalize the hypothesis, moral development, personal moral philosophy, and ethnicity are theoretically appropriate for this sample. Third, the sample is not comprised of inexperienced undergraduates, but rather graduate students with current exposures to the rigors of corporate life. And finally, as Ashton and Kramer (1980) and Remus (1986) observe, student samples are in fact appropriate for studies of decision making (Randal and Gibson, 1990).

2.5 Statistical analysis

A principle component analysis (Table II) was run on the 18 scenarios from which four unique factors are identified. These are scaled as dependent variables. The usual descriptive statistics are generated and presented in Tables III and IV. Table V presents the results of the four regression equations. Usual tests to evaluate the assumptions of the general linear model were performed with no important violations identified. Because the hypotheses predict the direction of the relationship, the significance level is set at ten; however, most variables that reach significance do so at a much lower level.

Variable	*N*	Minimum	Maximum	Mean	SD
		Total			
Money	322	7.00	45.00	26.091	9.56
Public policy	333	3.00	19.00	7.135	3.505
Marketing	329	3.00	21.00	11.589	4.168
Discrimination	333	2.00	14.00	5.804	3.016
P-score	322	0.00	74.07	29.234	14.622
Country	340	0	1	0.51	0.501
Moral philosophy	340	−8.00	6.00	0.423	2.846
Gender	319	0	1	0.46	0.49
Age	319	21	60	29.400	7.811
		USA			
Money	168	7.00	42.00	20.541	7.597
Public policy	168	3.00	13.00	5.535	2.258
Marketing	167	3.00	21.00	11.802	4.142
Discrimination	168	2.00	14.00	5.607	3.026
P-score	166	0	74.07	32.932	14.915
Moral philosophy	168	−6.00	6.00	−0.369	2.544
Gender	166	0	1	0.63	0.484
Age	160	21	60	33.14	7.765
		Latvia			
Money	154	7.00	45.00	32.149	7.626
Public policy	165	3.00	19.00	8.763	3.793
Marketing	162	3.00	21.00	11.370	4.192
Discrimination	162	3.00	21.00	11.370	4.192
P-score	156	0.00	68.97	25.299	13.257
Moral philosophy	172	−8.00	6.00	1.197	2.919
Gender	165	0	1	0.29	456
Age	159	22	56	25.63	5.798

Table III.
Descriptive statistics

Total	Money	Public policy	Marketing	Discrimination
P-score	−0.324***	−0.244***	−0.122**	−0.174***
Country	0.607***	0.461***	−0.052	0.066
Moral philosophy	0.332***	0.272***	0.026	0.117**
Gender	−0.160***	−0.014	0.274***	0.274***
Age	−0.356***	−0.223***	−0.045	−0.045

Table IV.
Correlations

Note: Significant at *0.10; **0.05; ***0.01

	B	SE	β	t	Significance
Money issues[a]					
Constant	27.016	2.268		11.914	000
P-score	−0.118	0.031	−0.179	−3.758	000
Country	9.768	1.048	0.517	9.334	000
Moral philosophy	0.288	0.176	0.080	1.641	0.102
Gender	0.915	0.905	0.049	1.011	0.313
Age	−0.078	0.062	− 0.065	−1.259	0.209
Public policy[b]					
Constant	5.527	0.941		5.872	0.000
P-score	−0.021	0.013	−0.087	−1.636	0.103
Country	2.934	0.429	0.427	6.833	0.000
Moral philosophy	0.170	0.071	0.130	2.398	0.017
Gender	0.916	0.374	0.133	2.448	0.015
Age	0.008	0.026	0.018	0.307	0.759
Marketing issues[c]					
Constant	12.692	1.271		9.987	0.000
P-score	−0.035	0.018	−0.120	−2.015	0.045
Country	−0.283	0.582	−0.034	−0.486	0.628
Moral philosophy	0.028	0.099	0.018	0.286	0.775
Gender	1.590	0.504	0.191	3.153	0.002
Age	−0.015	0.035	−0.030	−0.663	0.644
Discrimination issues[d]					
Constant	5.888	0.880		6.690	0.000
P-score	−0.028	0.012	−0.132	−2.325	0.021
Country	0.426	0.402	0.071	1.061	0.290
Moral philosophy	0.092	0.066	0.081	1.397	0.163
Gender	1.912	0.350	0.317	5.462	0.000
Age	−0.013	0.024	−0.033	−0.531	0.596

Notes: [a]Adjusted $R^2 = 0.440$, Sig. = 0.000; [b]Adjusted $R^2 = 0.223$, Sig. = 0.000; [c]Adjusted $R^2 = 0.054$, Sig. = 0.005; [d]Adjusted $R^2 = 0.110$, Sig. = 0.000

Table V.
Regression analysis

3. Results

3.1 Control variables

It is noted that dependent variables are scaled from scenarios that score increasing levels of moral judgment inversely. That is, the lower the score the higher the level of moral judgment.

Table III provides descriptive and Table IV gives correlation results for model variables. Three of the four Pearson correlations for gender are significant, although no pattern developed and effect size is small. Regression results for gender (Table V), are more robust. Coefficients are statistically significant for three of the four dependent variables showing women with superior moral judgment. Age is ambiguous; simple correlation coefficients with money and public policy are significant showing older people have better moral judgments than younger people. However, none of the regression models had a significant coefficient for age. And while the distribution of age is a bit truncated, it is concluded that age is not a factor in the analysis. On the other hand, the question of gender and its influences on moral judgment are unanswered and the gender effect is left for future research. Finally, all four models reached statistical significance.

The fact that results varied across the four dependent variables at all is important and speaks to the strong influence the issue itself had on moral judgment.

3.2 H1

Simple Pearson correlation coefficients for *P*-score are in the predicted direction and significant in all dependent variables, although predictive power varies/money issues are five times more important than Marketing issues. Regression coefficients for *P*-scores are in the predicted direction for all dependent variables and significant in three. The data support a finding that higher levels of moral development as measured by the DIT are associated with increasing levels of moral judgment. *H1* has strong support in the data and the null hypothesis is rejected.

3.3 H2

The hypothesis has two questions, is the quality of moral judgment (exemplified in the response to the four dependent variables) similar across the USA and Latvia and second, is moral development (*a la* Kohlberg) similar across the two countries? With respect to the first, absolute levels of moral judgment vary across countries. US averages on the four dependent variables are 20.54, 5.53, 11.80, and 5.60. Latvian scores are 32.149, 8.76, 11.37, and 6.00, respectively. That is, the US sample had higher levels of moral judgment in three of the four dependent variables and the difference between means for money issues and public policy issues were statistically significant at the 0.01 level for country of respondent (ANOVA not shown). Further, simple Pearson correlation coefficients for country are significant and in the predicted direction for two of the dependent variables; money issues and public policy. In addition, regression analysis shows similar results with Country of Respondent being statistically significant for money and public policy issues. That is, Americans are associated with higher levels of moral judgment than Latvians. Turning to moral development, the data indicate that overall American respondents were at a higher level of moral development than those in Latvia. The mean *P*-score for the USA was 32.93 and 25.29 for Latvia (significant at $p < 0.01$ ANOVA is not shown).

A consideration of the results for *H1* and *H2* leads to another important question. That is, does the level of moral development, and its functional relationship to moral judgment, vary across Latvia and the USA? In statistics terms, do the slopes of the regression coefficient for *P*-score vary in addition to the constant for dummy Country? To explore this possibility, an interaction term *P*-score $\times$ country was added to the four equations. None of these coefficients was significant. From this, it is concluded that the functional relationship between moral development and moral judgment does not vary across country. Therefore, descriptive data and regression analysis find significant variations in moral development and moral judgments across the two countries, with Latvians scoring lower on the defining issues test and in the quality of their moral judgments. However, the positive linear relationship between increased moral development and increased moral judgment is present in both countries. This is an important finding and gives weight for the use of the DIT in cross-cultural studies. The hypothesis has good support and the null hypothesis is rejected.

3.4 H3

Simple Pearson correlation coefficients are statistically significant in three of the dependent variables with Marketing being the only exception. Table III shows respectable simple correlations of 0.32 and 0.27 for Money and Public Policy. Regression analyses are less encouraging where Moral Philosophy reaches significance in only the Public Policy equation. Signs for all statistics are in the predicted direction, that is, increased levels of a nonconsequentialist disposition are associated with increased moral judgment. Although weaker than CMD or Country, Moral Philosophy has sufficient influence to reject the null hypothesis.

4. Discussion

A major finding of the study is that moral judgment varies across the nature of the issue considered. That is, tests of significance, simple correlations, and regression results all vary with the four dependent variables. Percentage of variance explained for Money issues is the highest of the four dependent variables and at 44 per cent is very respectable for social science research. Variance explained for Policy issues and Discrimination are acceptable and indicate the value of the two equations, however, Marketing issues, while significant, is unimpressive in terms of adjusted R^2. The idea that moral judgments vary with the issue at hand has intuitive appeal and may speak to distinctions being made on the part of the decision maker between competing pressures, existence of codes of ethics, level of moral intensity, and personal versus organizational values, to mention a few.

While the three independent variables demonstrate varying degrees of influence on moral judgment, one cannot glean from the data collected in our study why respondents' moral judgment varies across the four dependent variables. Jones (1991) theorizes that issue, specifically the moral intensity of the issue, is important in moral decision-making. He identifies six socio-psychological factors that determine the "moral intensity" of an issue and calls for research to determine the validity of his theory. These socio-psychological factors include: magnitude of consequences, social consensus, probability of effect, temporal immediacy, proximity, and concentration of effect. And while none of Jones' factors are included in our study, they do offer a potential explanation for the differences across issues. What causes the differences in moral judgment across Money, Public Policy, Marketing, and Discrimination issues? It may be there exists more of a social consensus on the manner of handling money and less on issues of discrimination or public policy. For example, the issue discrimination is open to many interpretations and applications. Further, respondent's perception of the magnitude of a consequence associated with the various issues may also impact the level of moral judgment. One may argue that Money issues relate directly to the distribution of scarce goods and services across a community so their impact on people, in reality a proxy for lifestyle, has immediate consequences and so promote increased interest in moral judgment.

The weak relationship between CMD, Country, and Moral Judgment on Marketing issues is an interesting finding in itself. Marketing issues are not subject to the same moral calculus as other issues. It is interesting to note that Moral Development and Gender are significant and based on the standardized coefficients Gender is two and a half times as important as level of moral development in determining moral judgments. One conclusion is that it is not surprising that women would be concerned given the assault in both countries on children and the use of sex as a hook by marketers. However,

because the adjusted R^2 is so small a far stronger conclusion is that future business leaders in both the USA and Latvia view marketing issues as distinct and apart from other ethical considerations, and possibly not subject to the same moral rigor.

The strongest conclusion of the study is that level of moral development is a major factor in moral judgment regardless of the issue in question. That is, increased moral judgment in three of the four dependent variables is associated with higher P – scores on the DIT. Given the strong statistical support and the temporal sequencing of the variables, but most importantly given the theoretical underpinnings of the relationship, we feel confident in the causal link from increased moral development to increased moral judgment.

Country of respondent is another variable of note in the study. For Money issues and Public Policy issues, being an American is associated with increased quality of moral judgment. Further, the standardized coefficients indicate that Country is the most influential predictor variable in the two equations. And the data reflect that whatever the important variables for moral judgment are, culture is not one of them for the latter two dependent variables. This means that Latvians and Americans think in a similar way about marketing and discrimination issues and differently about Money and Public Policy issues. The finding that Money issues and Public Policy issues have significant results for the Country dummy supports the argument that post-socialist economies continue to be influenced by Soviet era ethics. This may speak to an "every man for himself" attitude with a desire to improve one's position in life as fast as possible. Considering the economic indignities and social and political injustices visited on subjugated peoples prior to 1991, it is not surprising that respondents would take this attitude. Money issues may reflect an instrumental nature in respondent's desires and speak to the method by which the better life is achieved, first for the company and then for its leadership. A complimentary explanation would credit current values to a more aggressive style of capitalism adopted by Latvia to "shock" the country into development. Further, peoples in transition economies are currently working through their attitudes about the appropriate relationship between the government and the economy. Perhaps, it is not surprising that there would be less of a concern over the Public Policy issues identified in our study given that respondents hope to become business leaders in the future. No doubt if pensioners were surveyed, this finding would be different.

Increased levels of moral development are associated with increased moral judgment for both countries, but where Country is significant, the relationship exists to a lesser degree in Latvia. That is to say, while levels of moral development in the USA. and Latvia and the quality of moral judgment vary across two independent variables, the relationship posited by Kohlberg and his followers – that increased levels of moral development lead to better moral judgment – is true in both countries. The difference is that the magnitude of the relationship is higher in the USA than in Latvia. However, caution is advised. The study did not capture possible influences of significant external factors, for example, the strength of each country's legal system. Therefore, while these findings suggest efforts to combat corruption in parts of the EU would benefit from improving the level of moral development, there are no doubt other factors that influence the lower level of CMD in Latvia.

There is strong intuitive appeal for the inclusion of Moral Philosophy as a force influencing moral judgment and our study finds a degree of empirical support for this.

Respondent's disposition toward a nonconsequentialist, as opposed to a consequentialist, viewpoint does covary with moral judgment in the second most powerful Equations (public policy), is close to statistical significance in the most powerful Equation (Money), and has three significant simple correlations with Money, Public Policy, and Discrimination. This finding is not surprising given that a consequentialist ethic is linked to Capitalism as a justification for any potential harm caused by the fee play of the market in the name of "the greatest good for the greatest number."

This leads to an important methodological and theoretical justification for Rest *et al.*, 1999 decision to separate Moral Philosophy and Moral Development in their reworking of Kohlberg's model. Jones (1991) agrees with Rest *et al.*(1999) approach and posits that the two variables are distinct, capturing concepts unique to each. This is so because Kohlberg's theory does not incorporate consequentialist tenets in its conceptualization. To investigate this further an interaction term, Moral Development X Personal Philosophy (not shown), was added to the four equations with no statistically significant results. The lack of results suggests that Jones and Rest *et al.* (1999) are correct and the two variables are unique and should continue to be separated in models investigating moral judgment. Nevertheless, the weaker finding for Moral Philosophy is interesting given that one's personal ethical disposition might be expected to have more influence on moral judgment. The absence of a more robust showing may result from a number of factors. First, there may be a moderating influences of unspecified variables such as respondent's personality traits, social strata or standard of living. And second, the instrument used to capture Moral Philosophy may be inadequate.

5. Conclusions limitations and future research

Survey data from the USA and the Republic of Latvia were collected from three hundred and forty graduate business students as a proxy for future business leaders. Based on the work of Kohlberg and Rest *et al.* (1999) our purpose was to empirically test the influence of CMD, country, and one's moral philosophy on levels of moral judgment. Principal Component Analysis reduced eighteen scenarios to four factors which were regressed on measures of CMD, County, and Moral Philosophy. Results suggest a number of interesting conclusions, policy implications for both business leaders and business educators, and areas for future research.

First, respondents' levels of moral judgment are not constant and vary with the issue under consideration. The fact moral judgment varied with the issue lends weight to Jones' proposition that moral behavior varies with the degree of "moral intensity" ascribe to any particular issue. The possible reasons respondents make different moral calculations depending on the nature of the issue was not incorporated into our study, however, the six dimensions identified by Jones offer weighty theoretical justification for future research. Further, we were surprised by the complete lack of moral judgment over issues surrounding marketing. The lack of moral judgment in this area raises concerns about the ability of the marketing profession to self regulate.

Second, the influence of moral development on moral judgment is clear and given that moral behaviors are a goal of business specifically (although some may take exception to this), and society in general, the promotion of moral development in all areas of society will increase the quality of ethical business judgment and, presumably, overall ethical behavior. Logically, it would follow that a heuristic approach employing

school, family, church, government, and business would be the most successful. However, investigations into additional antecedents of moral judgment including personality traits, education, class, and religiosity would aid the policy debate. Also, the reader is reminded we only tested one part of the Rest *et al.* (1999) model and while there are many studies directed at the various individual psychological concepts posited, empirical work studying the entire model concurrently is needed.

Third, the data support a Kohlbergian view of the link between CMD and moral judgment and the data also reflect an absolute difference in the level of moral judgment between the two countries. The fact that this relationship is less intense in Latvia than in the USA gives added clarity to its importance. Former socialist nations, struggling with the vicissitudes of economic transition, require sound moral judgments more than ever both as a buffer from the abuses of the past and as a conduit to successes of the future. Is this cultural difference the result of inherited patterns of behavior from the Soviet era, an underlying normative approach rooted in earlier stages of capitalist development, or something else, perhaps ineffective institutional restraints on an the market? Are there institutions in place to address the problems of public goods, externalities, and other market failures? Should there be such institutions, and how are they most effective? Will levels of moral judgment increase as Latvian society continues to modernize and are such institutions necessary for improved moral judgment? The European Union may wish to note our findings when considering its anti-corruption efforts and future scholarship may wish to extend our inquiry to other former Socialist countries.

And while the USA sample scored higher on moral judgment, America's business community is not excused from self examination. Absolute scores on the DIT for the American sample were below those obtained in prior research for other occupational groups as well as for adults in the general population (Center for the Study of Ethical Development, 1986: Section 6; Coleman and Wilkins, 2002). Is the moral judgment of American managers in fact inferior to other occupational groups, and if so why, and what is its impact, and what can or should be done about it? Also of interest is that the functional relationship between CMD and moral judgment are present in both countries thus giving a boost to proponents of the DIT in cross-cultural research.

Finally, the data suggest that one's psychological development and one's normative philosophical predispositions are separate concepts and should be studied as such. Theoretically, within the Postconventional Schema one may base their principled normative reasoning on various systems of moral philosophy, although it does appear empirically that a nonconsequentialist approach is associated with higher levels of moral judgment. How constant is this observation? Does it vary across other cultures and occupations? More specifically, Cyriac and Dharmaraj (1994) suggest an interesting proposition, namely, that Moral Philosophy has a greater impact on personal issues as opposed to workplace issues. This is particularly interesting for the transitioning economies of the former socialist block where people make a distinction between the two as a matter of survival (Riha, 1994). Does moral judgment vary with personal issue?

Our study suffers from several limitations. First, caution is advised when using scenarios in decision-making research. And although their use is pervasive in the literature, they may limit the range of participant responses and overlook contextual influences (Marshall and Dewe, 1997). Unfortunately using different operationaliztions to capture moral judgment is costly, complex, and time consuming. Also in the event

the scenarios employed in our study are used in the future, confirmatory factor analysis may add to theory development. Second, while we had almost a unanimous response rate to our questionnaire, in effect we did use an opportunity sample of employed individuals registered in graduate level business courses. One should be cautious in generalizing results to the larger population of business leaders in the USA and Latvia. Academics and practitioners would benefit from the increased generalizability possible in a methodology using a more random design targeting current business executives.

Finally, one should not conclude from the results of our study that Americans are more ethical or moral than Latvians. First, we examined only three variables associated with just one of the four sub-processes identified in the Rest *et al.* (1999) model. A great many other forces are at play when examining moral behavior and while moral judgment is necessary it is actions that matter. Second, there may be a difference in how one acts with family, kin, and intimates as compared to how one acts in more distant social arrangements. In other words, there is a distinction between the principles that guide public behavior and private behavior (Karklins, 2005, pp. 99-102). Our focus was moral judgment surrounding issues arising in the business organization and issues addressing private matters relating to family and kin were not studied. Lastly, the sample used in the study represents current employees and future business leaders. No attempt was made to survey other segments of the Latvian or USA populations. Our findings should not be generalized to either nation's culture.

References

Akaah, I.P. (1997), "Influence of deontological and teleological factors on research ethics evaluations", *Journal of Business Research*, Vol. 39 No. 2, pp. 71-80.

Ashton, R.H. and Kramer, S.S. (1980), "Students as surrogates in behavioral accounting research: some evidence", *Journal of Accounting Research*, Vol. 18, pp. 1-15.

Brady, F.N. (1990), *Ethics Managing Rules and Results*, Macmillan Publishing Company, New York, NY.

Brady, F.N. and Wheeler, G.E. (1996), "An empirical study of ethical predispositions", *Journal of Business Ethics*, Vol. 15 No. 9, pp. 927-40.

Center for the Study of Ethical Development (1986), *DIT Manual*, University of Minnesota, Minnesota, MN.

Coleman, R. and Wilkins, L. (2002), "Searching for the ethical journalist: an exploratory study of the moral development of news workers", *Journal of Mass Media Ethics*, Vol. 17 No. 3, pp. 209-25.

Cyriac, K. and Dharmaraj, R. (1994), "Machiavellianism in Indian management", *Journal of Business Ethics*, Vol. 13 No. 2, pp. 281-6.

Emerson, T.L.N. and Conroy, S.J. (2004), "Have ethical attitudes changed? An intertemporal comparison of the ethical perceptions of college students in 1985 and 2001", *Journal of Business Ethics*, Vol. 50 No. 2, pp. 167-76.

Ferrell, O.C. and Gresham, L.G. (1985), "A contingency framework for understanding ethical decision making in marketing", *Journal of Marketing*, Vol. 48, pp. 87-96.

Ford, R.C. and Richardson, W.D. (1994), "Ethical decision making: a review of empirical literature", *Journal of Business Ethics*, Vol. 13, pp. 205-21.

Forsyth, D.R. (1992), "Judging the morality of business practices: the influence of personal moral philosophies", *Journal of Business Ethics*, Vol. 11, pp. 461-70.

Fritzsche, D.J. (2005), *Business Ethics: A Global and Managerial Perspective*, McGraw-Hill Irwin, Boston, MA.

Fritzsche, D.J. and Becker, H. (1984), "Linking management behavior to ethical philosophy: an empirical investigation", *Academy of Management Journal*, Vol. 27, pp. 166-75.

Gautschi, F.H. III and Jones, T.M. (1998), "Enhancing the ability of business students to recognize ethical issues: an empirical assessment of the effectiveness of course in business ethics", *Journal of Business Ethics*, Vol. 17 No. 2, pp. 205-16.

Gielen, U.P. and Markoulis, D.C. (1994), "Preference for principal moral reasoning: a developmental and cross-cultural perspective", *Cross-Cultural Topics in Psychology*, Greenwood, Westport, CT.

Hunt, S.D. and Vitell, S.J. (1986), *A General Theory of Marketing Ethics*, Vol. 6, pp. 5-16.

Jones, T.M. (1991), "Ethical decision making by individuals in organizations: an issue contingent model", *Academy of Management Review*, Vol. 16, pp. 366-92.

Karklins, R. (2005), *The System Made Me Do It: Corruption in Post-communist Societies*, M.E. Sharpe, New York, NY.

Kohlberg, L. (1971), "From is to ought: how to commit the naturalistic fallacy and get away with it in the study of moral development", in Mischel, T. (Ed.), *Cognitive Development and Epistemology*, Academic Press, New York, NY.

Loe, T.W., Ferrell, L. and Mansfield, P. (2000), "A review of empirical studies assessing ethical decision making in business", *Journal of Business Ethics*, Vol. 25 No. 3, pp. 185-204.

Marshall, B. and Dewe, P. (1997), "An investigation of the components of moral intensity", *Journal of Business Ethics*, Vol. 16 No. 5, pp. 521-9.

O'Fallon, M.J. and Butterfield, K.D. (2005), "A review of the empirical ethical decision-making literature: 1996-2003", *Journal of Business Ethics*, Vol. 29 No. 4, pp. 375-413.

Randall, D.M. and Gibson, A.M. (1990), "Methodology in business ethics research: a review and critical assessment", *Journal of Business Ethics*, Vol. 9, pp. 457-71.

Remus, W. (1986), "Graduate students as surrogates for managers in experiments on business decision making", *Journal of Business Research*, Vol. 14 No. 1, pp. 19-25.

Rest, J., Narvaez, D., Bebeau, M.J. and Thoma, S.J. (1999), *Postconventional Moral Thinking: A Neo-Kohlbergian Approach*, Lawrence Erlbaum Associates Publishers, Mahwah, NJ.

Riha, T.J.F. (1994), "Missing: morality in the transformation of former socialist countries", *International Journal of Social Economics*, Vol. 21, pp. 10-31.

Roetz, H. (1996), "Kohlberg and Chinese moral philosophy", *World Psychology*, Vol. 2, pp. 335-63.

Smith, P. and Oakley, E. III (1996), "The value of ethics education in business school curriculum", *College Student Journal*, Vol. 30, pp. 274-83.

Snarey, J.R. (1985), "The cross-cultural universality of social-development", *Psychology Bulletin*, Vol. 97, pp. 202-32.

Snarey, J.R. and Keljo, K. (1991), "In a *gemeinschaft* voice: the cross cultural expansion of moral development theory", in Kurtines, W.M. and Gewirtz, J.L. (Eds), *Handbook of Moral Development and Behavior*, Vol. 1, Lawrence Erlbaum Associates, Hillside, NJ.

Transparency International (2008), "Corruption perception index", available at: www.transparency.org/policy_research/survey_indices/cpi/2004 (accessed July 15, 2008).

Weber, J. (1992), "Scenarios in business ethics research: review, critical assessment, and recommendations", *Business Ethics Quarterly*, Vol. 2, pp. 137-60.

Wood, J.A., Longenecker, J.G., McKinney, I.A. and Moore, C.W. (1988), "Ethical attitudes of students and business professionals: a study of moral reasoning", *Journal of Business Ethics*, Vol. 7, pp. 249-57.

Further reading

Ajzen, I. (1985), "From intention to action: a theory of planned behavior", in Kuhl, J. and Beckmenn, J. (Eds), *Action Control: From Cognition to Behavior*, Springer, New York, NY, pp. 11-39.

Bateman, C.R., Fraedrich, J.P. and Iyer, R. (2002), "The integration and testing of the Janus-headed model within marketing", *Journal of Business Research*, Vol. 56, pp. 586-97.

Marks, L.J. and Mayo, M.A. (1991), "An empirical test of a model of consumer ethical dilemmas", *Advances in Consumer Research*, Vol. 18, pp. 720-8.

Trevino, L.K. (1986), "Ethical decision making in organizations: a person situation interaction model", *Academy of Management Review*, Vol. 11, pp. 601-17.

Trevino, L.K. (1992), "Moral reasoning and business ethics: implications for research, education and management", *Journal of Business Ethics*, Vol. 11, pp. 445-59.

Wheeler, G.E. and Brady, F.N. (1998), "Do public-sector and private-sector personnel have different ethical predispositions? A study of two cities", *Journal of Public Administration*, Vol. 8, pp. 93-113.

Corresponding author

Charles G. Smith can be contacted at: csmith@otterbein.edu

This article has been cited by:

1. Ricky Y K Chan, Jennifer W M Lai. 2011. Does ethical ideology affect software piracy attitude and behaviour? An empirical investigation of computer users in China. *European Journal of Information Systems* **20**, 659-673. [CrossRef]
2. Shawn M. Carraher. 2011. Turnover prediction using attitudes towards benefits, pay, and pay satisfaction among employees and entrepreneurs in Estonia, Latvia, and Lithuania. *Baltic Journal of Management* **6**:1, 25-52. [Abstract] [Full Text] [PDF]
3. Shawn M. Carraher, Jason K. Buchanan, George Puia. 2010. Entrepreneurial Need for Achievement in China, Latvia, and the USA. *Baltic Journal of Management* **5**:3, 378-396. [Abstract] [Full Text] [PDF]