Organizations, Competition, and Ethics

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Remarks on Viviana A. Zelizer's article

In her innovative article "Ethics in the Economy", Viviana Zelizer explores a topic that few economic sociologists have explored: ethical/unethical conduct. She explains the lack of scholarly attention to questions of morality in the economy by the prevailing assumption that the economy operates as a pure, rational, efficient mechanism, a view that has precluded attention to failures, mistakes, and wrongful activities. Her insight is correct. However, we also must recognize the contribution of specialization in the discipline of sociology as it has affected the domain of economic sociology. A division of labor evolved that allocated the study of unethical and wrongful behavior in and by economic organizations to scholars specializing in deviance and social control, not economic sociology. This division of labor was reinforced by the rise of the new institutionalism in organizational analysis (Meyer/Rowan 1978; DiMaggio/Powell 1983; Powell/DiMaggio 1991) and its widespread acceptance in sociology as well as its diffusion across disciplines – including economics.

The new institutionalism's emphasis on the search for legitimacy by economic organizations further deflected attention from questions about ethics, morality, and why economic organizations violate laws, norms, and rules. In combination, the assumption of the economy as a pure, rational and efficient mechanism and the relegation of misconduct in and by organizations to specialists in deviance and social control had profound effect. The dark side of organizations was neglected (Vaughan 1999). Economic sociology hesitated to embrace questions of immorality to such an extent that when the topic of deviant and unethical activities was finally broached, it was referred to by the euphemism, "opportunism" (Williamson 1975; Granovetter 1985; for recent exceptions, see Baker/Faulkner 1993 2004; Swedberg 2005; Dobbin/Zorn 2005; Dobbin/Kelly 2007; Granovetter 2007).

Breaking new ground, Zelizer's insightful article thus bridges three disciplinary specialties: economics, economic sociology, and sociology of deviance and social control. She examines the formation and operation of formal ethical codes constructed by economic organizations. She asks new questions: What are the properties of codes, how do they arise, produce their effects, and how do violations occur? Of these topics, the most innovative, least understood, and most important she takes on is the

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problem of how ethical codes operate to produce conformity. Typically, research on economic organizations by specialists in deviance and social control has examined the causes of infractions by economic organizations, regulatory failure, and harmful outcomes. This amounts to studying deterrence when it doesn't occur. Opening up the long ignored topic of conformity, Zelizer lays out the processes and properties of codes that create it: a combination of "sanctions, selection, socialization, and mutual investment in interpersonal relations".

Second, she introduces economists and economic sociologists to organizational factors that contribute to unethical conduct. Note that in Zelizer's discussion of how ethical codes can work to produce conformity, she addresses three individual factors (sanctions; selection, individual advantage) and two organizational factors (socialization into a common way of thinking that supports morality and ethical behavior; moral actions that generate a normative internal environment reinforcing ethical codes). Identifying relevant intra-organizational processes, she points out the irony of these conditions: by their very absence or failure, they are also related to the production of violations. Indeed, research indicates that internal normative environments have, in some cases, resulted in offenses in which decisions of individuals in economic organizations have been subject to "the normalization of deviance": actions that outsiders would define as unethical, deviant, or illegal are not similarly defined by those who engage in them within the organization (Vaughan 1996).

In contrast to Granovetter's (2007) analysis of corruption, in which individuals recognize a wrongful act and prior to committing it invoke "techniques of neutralization" (Sykes/Matza 1957) to legitimate it in the current situation, the normalization of deviance is an organizational phenomenon: history, structure, and culture combine such that the act is never defined as deviant in the first place. In the external normative environment, the vague boundary between a clever business deal and unlawful behavior affects cultural understandings internally. Organization goals and individual goals merge. These circumstances encourage both unethical and illegal behavior because insiders see their own actions as conforming to organizational or industry norms, not deviant. For participants, such activities can become so routinized that they are an accepted part of daily operations. It is not a violation of the rules of doing business; it is the rule for doing business. Research has established that the normalization of deviance also operates in industry practices, promoting misconduct industry-wide (see e.g. Geis 1967; Clinard/Yeager 1980; Simpson 1986; Calavita et al. 1997).

These research discoveries about the relation between competitive environments, organizational processes, and morality undermine pure rational choice models. Zelizer solidifies her move away from a rational choice model and toward an organizational model when she identifies collective practices that produce ethical violations: interpersonal loyalty and unauthorized collective enterprises, the latter sometimes including managers. The two work together to generate misconduct by inhibiting others in the organization from discovering and reporting it. Her examples of the collective enterprise also are primarily intra-organizational. They include organized factions, betting pools, patron-client relations, and the creation of organizational subcultures in which participants collude to protect against organizational monitoring and individuals are unable to report the wrongdoing of others.

Codes of ethical conduct are attempts by economic organizations to be self-regulating. Therefore, the kinds of offenses they cover deserve scrutiny. Note that in order to render this unexplored topic manageable in a short paper, Zelizer intentionally narrows her scope to the acts that are the target of the codes themselves, thereby excluding those codes enacted by legislatures and government agencies to regulate economic organizations. Although she mentions crime, Watergate, and business scandals, such as Enron, the codes she examined do not. Instead, they target lesser offenses by individuals who subvert organizational ends in pursuit of parochial interests. Typically, codes of ethical conduct locate the cause of morality or immorality in individual decision making under a rational choice model. The very terms "morality" and "ethical" reflect this individualistic emphasis. Illustrative of this point are the examples from these codes that dominate Zelizer's analysis: illicit sexual liaisons, reporting (or failure to report) violations, harassment and discrimination, alcohol use, breaking confidentiality, personal use of organizational property, use of funds to individual advantage, accepting gifts from customers, weapons used in internal violence. Under a rational choice model, such failures reflect poor or unethical decisions by individuals.

Omitted from these codes are collective actions taken by individuals in order to achieve organization goals, actions that are much more costly to society. Those responsible may be individual organizations acting alone or multiple organizations engaging in industry-wide illegal practices. Whereas rational choice assumptions direct attention to individuals, shifting the focus to the activities of organizations allows us to examine the connection between organization characteristics and the competitive environment as they combine to affect individual choice: the structure of capitalism, the rank and mobility of organizations within it, how internal organizational structure and culture promote malfeasance and misconduct, and the structure of regulation that renders social control ineffective (Vaughan 1983). Many scholars of deviance and social control, recognizing that both institutional and organizational factors contribute to individual decisions to violate norms, rules, and laws, have focused on organizations and/or industries as the units of analysis. Their research has consistently verified the role of the competitive environment in shaping organization goals, cultures, and structure, thus influencing individual choice and action. Consequently, they define the subject matter as organizational deviance and misconduct rather than conceptualizing it as immorality or unethical activity by individuals.

Oddly, for economic sociology, which is implicitly or even explicitly a critique of economics, the influence of the competitive environment and its relation to malfeasance and misconduct have been a peripheral interest. Instead, studies have concentrated on production, distribution, consumption and profit-making as they affect economic growth (Swedberg 2005). Fourcade and Healy (2007) observe that "moralized markets" have begun to receive attention. This perspective sees markets as cultural phenomena and moral projects in their own right, examining how these projects are realized in practice. However, this shift still misses the dark side of organizations. In a recent advance, Granovetter (2007) explores the social context of corruption: social status of victim and offender, the network structure of corruption, and normative conflicts about legitimacy or illegitimacy of exchange. Nonetheless, formal organizations and competition remain in the background because bribery and extortion – vio-

lations by individuals in two party exchange – are the two types of corruption central to his analysis.

The contrasting approaches – rational choice versus social causation – have significant practical consequences. Historically, strategies for controlling deviance have addressed the causes identified (Pfohl 1994). The remedies that codes propose for these types of actions target rational choice. They manifest in punishment of responsible individuals, which may include firing, demotion, transfer, or mandatory retirement. Often the result is the creation of new sets of rules to guide individual decisions. Indeed, as Zelizer notes, many codes of ethical conduct themselves come into being as a result of some transgression. She distinguishes codes' "enforcement effects" from "display effects". Both are in the organization's interest. Display effects function as symbols of legitimacy that, at a practical level, are adopted to reduce legal liability or to protect political interests.

Having a code is, in itself, an advantage. The appearance of self-regulation is a display effect that serves to establish an economic organization's moral authority by a) deflecting the attentions of external social control agents and b) establishing an internal moral climate based on members' learned trust that any sanctions imposed will be mediated in the interest of the organization (Katz 1979). Further, punishing individuals is easier than changing institutions and organizations and more quickly gives the public appearance of having corrected the problem, creating a "clean slate" so business returns to normal (Vaughan 1996). Individuals should always be held accountable for their conduct. However, when organizational factors come into focus as a cause, strategies for control must include them. Changing organizations is a much bigger challenge than punishing individuals, but an important one. Otherwise, new people brought into the same positions as their predecessors who were removed for transgressions will be confronted by the same competitive, organizational, and regulatory structures and processes. Unethical behavior will simply be reproduced.

By introducing organizational factors, Zelizer has opened ethical and unethical conduct as a new line of inquiry for economic sociologists. Greater understanding and new insights could be gained if economic sociologists would more fully engage with the dark side of organizations. An extensive literature exists in the sociology of deviance and social control. Economic sociologists could draw from this literature. Further, economic sociologists have a different repertoire of theories and concepts to bring to research on this topic, leading to new insights for specialists in deviance and social control as Zelizer's article does. Her main contribution is to reveal little recognized organizational processes associated with both conformity and deviance. Her analysis is primarily about organizational processes because the content of the codes has directed her attention in that direction. But in conclusion, she suggests research into the structural factors that contribute to morality and immorality in economic organizations. She includes general ethical contexts such as national ethical traditions, the relationship between normative environments external to organizations and the contents of internal ethical codes of conduct, and concludes by suggesting larger questions about the ethics of the competitive environment of capitalism and its effect that economic sociologists have ignored. Bringing competition and organizations in is a step long overdue.

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